

**ENTREPRENEURSHIP  
DEVELOPMENT FUND OF  
THE REPUBLIC OF AZERBAIJAN**

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

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

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

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The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the financial statements of the "Entrepreneurship Development Fund of the Republic of Azerbaijan" (the "Fund").

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

In preparing the financial statements, management is responsible for:

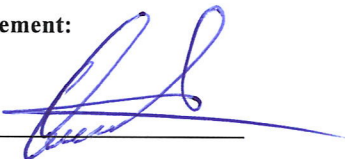
- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS has been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial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


Management is also responsible for:

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

The financial statements for the year ended December 31, 2023 were authorized for issue on April 24, 2024 by the Management.

**On behalf of the Management:**

  
\_\_\_\_\_  
**Osman Khaliyev**  
**Chairman of the Executive Board**

  
\_\_\_\_\_  
**Aynur Jabrailova**  
**Chief Accountant**

April 24, 2024  
Baku, the Republic of Azerbaijan

April 24, 2024  
Baku, the Republic of Azerbaijan



## INDEPENDENT AUDITORS' REPORT

To the Shareholder and Executive Board of the “Entrepreneurship Development Fund of the Republic of Azerbaijan”:

### *Opinion*

We have audited the financial statements of the “Entrepreneurship Development Fund of the Republic of Azerbaijan” (the “Fund”), which comprise the statement of financial position as at December 31, 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2023, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### *Basis for Opinion*

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

### *Emphasis of Matter – Reorganization of the Fund*

As disclosed in Note 1 to the financial statements, the president of the Republic of Azerbaijan signed a decree on “improving governance for the development of entrepreneurship” on October 11, 2021. According to the decree, the Fund and “Azerbaijan Investment Company” OJSC will be merged and new public legal entity “Azerbaijan Business Development Fund” will be established under the Ministry of Economy. After completion of registration process of new company, operations of the Fund will be cancelled and transferred to the new entity. Until then the Fund will continue its operations under existing conditions. The assets and liabilities will be transferred to a new established entity based on their book values as at the date of the transfer. As at the date of this report, the reorganization process has not been completed. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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 Fund'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 Fund or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund'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 Fund'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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*Baker Tilly Azerbaijan*

April 24, 2024

Baku, Republic of Azerbaijan


# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN


## STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2023

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	December 31, 2023	December 31, 2022
<b>ASSETS</b>			
Cash and cash equivalents	7, 8	149,081	143,570
Deposits at banks	9	84,456	65,695
Investment securities	7, 10	89,326	33,698
Loans to credit institutions	7, 11	680,693	699,339
Property, equipment and intangible assets	12	7,830	7,192
Other assets	13	110	2,397
<b>TOTAL ASSETS</b>		<b>1,011,496</b>	<b>951,891</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Government subsidies to customers	14	825	-
Other liabilities	15	12	20
<b>Total liabilities</b>		<b>837</b>	<b>20</b>
<b>EQUITY</b>			
Charter capital	16	1,007,307	1,007,307
Other reserves	17	151,126	104,841
Accumulated losses		(147,774)	(160,277)
<b>Total equity</b>		<b>1,010,659</b>	<b>951,871</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,011,496</b>	<b>951,891</b>

On behalf of the Management:

  
Osman Khaliyev  
Chairman of the Executive Board

  
Aynur Jabrailova  
Chief Accountant

April 24, 2024  
Baku, the Republic of Azerbaijan

April 24, 2024  
Baku, the Republic of Azerbaijan

The notes on pages 8-43 form an integral part of these financial statements.




# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN


## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2023

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
Interest income	7, 18	20,341	13,310
Other operating income	7, 19	438	1,065
<b>Operating income</b>		<b>20,779</b>	<b>14,375</b>
Recovery of expected credit losses, net	11	1,771	8,945
Operating expenses	20	(7,442)	(6,676)
<b>Profit before income tax</b>		<b>15,108</b>	<b>16,644</b>
Income tax expense	21	(2,605)	(1,135)
<b>Profit for the year</b>		<b>12,503</b>	<b>15,509</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>12,503</b>	<b>15,509</b>

On behalf of the Management:

  
Osman Khaliyev  
Chairman of the Executive Board

  
Aynur Jabrailova  
Chief Accountant

April 24, 2024  
Baku, the Republic of Azerbaijan

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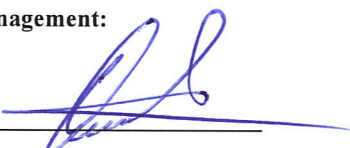
# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN


## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2023

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

	Charter capital	Other reserves	Accumulated losses	Total equity
January 1, 2022	1,007,307	(6,399)	(175,786)	825,122
Change in other reserves	-	111,240	-	111,240
Total comprehensive income for the year	-	-	15,509	15,509
<b>December 31, 2022</b>	<b>1,007,307</b>	<b>104,841</b>	<b>(160,277)</b>	<b>951,871</b>
Change in other reserves	-	46,285	-	46,285
Total comprehensive income for the year	-	-	12,503	12,503
<b>December 31, 2023</b>	<b>1,007,307</b>	<b>151,126</b>	<b>(147,774)</b>	<b>1,010,659</b>

On behalf of the Management:

  
Osman Khaliyev  
Chairman of the Executive Board

  
Aynur Jabrailova  
Chief Accountant

April 24, 2024  
Baku, the Republic of Azerbaijan

April 24, 2024  
Baku, the Republic of Azerbaijan

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# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN


## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2023

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		16,338	12,570
Net other operating income received		425	1,063
Staff costs paid		(5,429)	(5,094)
Other operating expenses paid		(1,261)	(971)
<b>Cash inflow from operating activities before changes in operating assets</b>		<b>10,073</b>	<b>7,568</b>
Net change in loans to credit institutions		20,601	26,314
Net change in government subsidies to customers		2,913	(18,780)
<b>Cash inflow from operating activities before income tax</b>		<b>33,587</b>	<b>15,102</b>
Income tax paid		(2,614)	(1,705)
<b>Net cash generated by operating activities</b>		<b>30,973</b>	<b>13,397</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Placement of deposits, net		(17,500)	(5,500)
Investment in securities, net		(53,070)	(14,631)
Payment for property, equipment and intangible assets		(1,177)	(972)
<b>Net cash used in investing activities</b>		<b>(71,747)</b>	<b>(21,103)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net payment of subsidies from the Fund's reserves		(3,015)	(8,001)
Contribution by the state budget		50,000	120,000
Other transfers to the Government		(700)	(759)
<b>Net cash inflow from financing activities</b>		<b>46,285</b>	<b>111,240</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>5,511</b>	<b>103,534</b>
<b>CASH AND CASH EQUIVALENTS, at the beginning of the year</b>	8	<b>143,570</b>	<b>40,036</b>
<b>CASH AND CASH EQUIVALENTS, at the end of the year</b>	8	<b>149,081</b>	<b>143,570</b>

On behalf of the Management:

  
Osman Khaliyev  
Chairman of the Executive Board

  
Aynur Jabrailova  
Chief Accountant

April 24, 2024  
Baku, the Republic of Azerbaijan

April 24, 2024  
Baku, the Republic of Azerbaijan

The notes on pages 8-43 form an integral part of these financial statements.



# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

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### 1 THE FUND AND ITS OPERATIONS

The Entrepreneurship Development Fund of the Republic of Azerbaijan (the “Fund”) is a financial institution providing state support to the development of the entrepreneurship in the Republic of Azerbaijan. The main aim of the Fund is to increase the employment activity of the population and provide preferential loans to entrepreneurs in the Republic of Azerbaijan. In order to improve the support mechanism for entrepreneurship development, creating new production and processing enterprises based on innovative technologies in the non-oil sector, ensure the financing of export operations, accelerate investments in the real sector and expand access to financial resources of business units operating in the private sector, the National Fund for Entrepreneurship Support of the Republic of Azerbaijan was reorganized as the Entrepreneurship Development Fund, a public legal entity under the Ministry of Economy by the Presidential Decree “On improvement of the state support mechanism for entrepreneurship development in the Republic of Azerbaijan” dated July 31, 2018. The application of the new procedures will form opportunities for expansion of entrepreneurs’ access to concessional financial resources and non-oil production and exports, reduction of production expenses and product cost, creation of new production areas and wider use of the state support mechanisms by the private sector. In order to regulate the activities of the Fund in accordance with the priorities and long-term goals of economic development of the Republic of Azerbaijan, the “Charter of the Entrepreneurship Development Fund” and “Rules of use of the Entrepreneurship Development Fund” were approved by the Decree of the President of the Republic of Azerbaijan dated July 31, 2018. According to the rules, all banks and non-bank credit organizations licensed by the Central Bank of the Republic of Azerbaijan in accordance with the criteria set by the Supervisory Board of the Fund may participate in the issuance of concessional loans as an authorized credit institution.

Main responsibilities of the Fund include:

- To finance investment projects of entrepreneur’s entities in compliance with national legislation in line with priorities of the social and economic development priorities of the Republic of Azerbaijan;
- Ensure efficient and purposeful use of resources allocated to the Fund for entrepreneurship support;
- To carry out examination of investment projects to be financed at the expense of the Fund;
- Give preference to financing investment projects that are in line with state programs on entrepreneurship development;
- Participate in the development and implementation of sectoral and regional programs that ensure the development of entrepreneurship and the creation of new job opportunities;
- To set minimum requirements for the preparation of investment projects and criteria for evaluating investment projects for obtaining concessional loans at the expense of the Fund;
- To establish rules for monitoring in order to control the use of loans in accordance with their purpose;
- Collection and dissemination of legal, economic and other information required for entrepreneurs, researching market conjuncture, supporting the development of programs and investment projects for entrepreneurship development;
- To assist in the promotion of scientific and technical knowledge and innovations necessary for business entities;
- Carry out other duties in accordance with the legislation.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

According to the approved Charter of the Fund, the following sources may form the capital of the Fund for implementation of the main activities:

- Allocations of the state budget of the Republic of Azerbaijan;
- Revenues from the Fund's activities, including the basis for concessional loans;
- Voluntary donations made by local and foreign legal entities and individuals;
- Financial aid and grants contributed by foreign countries and international organizations, as well as loans acquired by the state in local and foreign financial markets meeting requirements of the state; and
- Other sources as stipulated in the legislation.

On October 11, 2021, the president of the Republic of Azerbaijan signed a decree on "improving governance for the development of entrepreneurship". According to the decree the Fund and "Azerbaijan Investment Company" OJSC will be merged and new public legal entity Azerbaijan Business Development Fund will be established under the Ministry of Economy. After completion of registration process of new company, operations of the Fund will be cancelled and transferred to the new entity. The reorganization process has not yet been completed as at the date of report.

### **Registered address and place of operations**

The Fund's registered address and place of business is 172 Abbas Mirza Sharifzade Street, AZ1122, Baku, the Republic of Azerbaijan. As at December 31, 2023, the Fund had 83 employees (2022: 79 employees).

## **2 OPERATING ENVIRONMENT OF THE FUND**

The Fund's operations are conducted in the Republic of Azerbaijan. The Fund is exposed to the economic and financial markets of Azerbaijan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Azerbaijan.

The depreciation of Azerbaijani Manat in 2015-2016 years has led to significant uncertainties in the business environment, therefore government took all required actions to keep the exchange rate stable over the past 7 years. As a result, continuous fluctuation in global oil prices did not affect the local currency and therefore did not increase the uncertainty in the business environment.

The economy of Azerbaijan expanded 1.1 percent year-on-year in January-December period 2023, slowing from a 4.6 % growth in the same period last year. The non-oil & gas sector increased by 3.7 %, while the oil & gas sector contracted 1.7 %. From the production side, the strongest contributions came from industry (40.5 %) and retail trade (10 %). Additional support was seen in transportation & storage (6.2%) and construction (6.2 %).

The sustainability of the cease-fire arrangement over the Karabakh region also improves the business environment as there are number of government-led projects to attract investment and develop the territories released from occupation.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

GDP reached AZN 123 billion (USD 72.4 billion) in 2023 with 1.1% growth compared to 2022. During the eleven months of 2023 foreign trade turnover of the Republic of Azerbaijan reached about USD 51.2 billion of which export amounted to USD 33.9 billion and import amounted USD 17.3 billion according to the statistics of the State Customs Committee.

International credit rating agencies regularly evaluate the credit rating of the Republic of Azerbaijan. "Fitch" and "S&P" evaluated the rating of the Republic of Azerbaijan as "BB+". "Moody's Investors Service" set a "Ba1" credit rating for the country.

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

### 3 MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policies applied in the preparation of these financial statements are set out below:

#### **Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") under the historical cost convention, except measurement at fair value of certain financial instruments. The reporting date of the Fund's financial statements is December 31.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

#### **Going concern**

As disclosed in Note 1 to the financial statements, following the decree of the president of the Republic of Azerbaijan on "improving governance for the development of entrepreneurship" dated October 11, 2021 the operations of the Fund will be cancelled and transferred to a new public legal entity Azerbaijan Business Development Fund after completion of registration process of a new company. Until then the Fund will continue its operations under existing conditions. The assets and liabilities will be transferred to a new established entity based on their book values as at the date of the transfer. Accordingly, assets and liabilities are recorded on the basis that the Fund will be able to realize its assets and discharge its liabilities in the normal course of business.

Management's assessment of the going concern assumption involves making a judgment, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

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### **Functional and presentation currency**

The functional currency of the Fund is Azerbaijani Manat (“AZN”) as, being the national currency of the Republic of Azerbaijan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AZN is also the presentation currency for the purposes of these financial statements.

Financial information presented in AZN is rounded to the nearest thousand, unless otherwise stated.

### **Financial instruments - key measurement terms**

*Financial instrument* is any contract that gives rise to a financial asset of the Fund and a financial liability or equity instrument of another entity.

Depending on their classification, financial instruments are carried at fair value or amortized cost as described below.

*Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses (“ECL”).

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts gross cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

### **Financial instruments – initial recognition**

When financial assets are initially recognized, they are classified accordingly in one of the following categories: (1) financial assets recognized at fair value through profit or loss (FVTPL), and (2) financial assets recognized at fair value in other comprehensive income (FVTOCI) or (3) financial assets recorded at amortized cost (“AC”).

Financial instruments at FVTPL, if any, are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Fund commits to deliver a financial asset. All other purchases are recognised when the Fund becomes a party to the contractual provisions of the instrument.

### **Financial assets – classification and subsequent measurement – measurement categories**

The Fund classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depend on (I) the Fund’s business model for managing the related assets portfolio and (II) the cash flow characteristics of the asset.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVPL.

In addition, on initial recognition, the Fund may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

### **Financial assets – classification and subsequent measurement – business model.**

The business model reflects how the Fund manages the assets in order to generate cash flows – whether the Fund’s objective is: (I) solely to collect the contractual cash flows from the assets (“hold to collect contractual cash flows”), or (II) to collect both the contractual cash flows and the cash flows arising from the sale of assets (“hold to collect contractual cash flows and sell”) or, if neither of (I) and (II) is applicable, the financial assets are classified as part of “other” business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Fund undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Fund in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets’ performance is assessed. Refer to Note 4 for critical judgements applied by the Fund in determining the business models for its financial assets.

### **Financial assets – classification and subsequent measurement – cash flow characteristics**

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Fund assesses whether the cash flows represent solely payments of principal and interest (“SPPI”). In making this assessment, the Fund considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, prepayment and extension terms, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Fund in performing the SPPI test for its financial assets.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

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### **Financial assets – reclassification**

Financial instruments are reclassified only when the business model for managing the portfolio as a whole change. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Fund did not change its business model during the current and comparative period and did not make any reclassifications.

### **Financial assets impairment – credit loss allowance for ECL**

The Fund assesses, on a forward-looking basis, the ECL for loan portfolio and financial instruments measured at AC. The Fund measures ECL and recognises credit loss allowance on financial assets at each reporting date. The measurement of ECL reflects (I) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, (II) time value of money and (III) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Fund applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 Months ECL”). If the Fund identifies a significant increase in credit risk (“SICR”) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). Refer to Note 4 for a description of how the Fund determines when a SICR has occurred. If the Fund determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. Note 22 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Fund incorporates forward-looking information in the ECL models.

### **Presentation of allowance for ECL in the statement of financial position**

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

### **Financial assets – write-off**

Financial assets are written off, in whole or in part, when the Fund exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Fund may write off financial assets that are still subject to enforcement activity when the Fund seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.



# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

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### **Financial assets – derecognition**

The Fund derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Fund has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (I) also transferring substantially all the risks and rewards of ownership of the assets or (II) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

### **Financial liabilities – measurement categories**

Financial liabilities are classified as either: – Financial liabilities at amortised cost; or – Financial liabilities as at fair value through profit or loss (FVTPL).

### **Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the current year profit.

### **Cash and cash equivalents**

Cash and cash equivalents are short-term 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 consist of cash on hand in local currency and unrestricted balances on correspondent accounts. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

### **Investments in debt securities**

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

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognized in profit or loss. An impairment allowance estimated using the expected credit loss model is recognized in profit or loss for the year. All other changes in the carrying value are recognized in OCI. When the debt security is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Fund may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognized or measured on different accounting bases.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

### Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and amortization and any recognized impairment loss.

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation and amortization are charged on the carrying value of property, equipment and intangible assets and are designed to write off assets over their useful economic lives. The estimated useful lives, residual values and depreciation/amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

	Useful lives in years
Buildings	20
Vehicles	4
Office and computer equipment	4
Furniture and fixtures	4
Intangible assets	3-10

The Fund changed useful life estimation on intangible assets from 10 years to 3 or 10 years due to license expiration date. The financial effect of this change to the depreciation expense was immaterial.

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

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

At the end of each reporting period, the Fund reviews the carrying amounts of its property, equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Fund estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss accounts, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

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An item of property, equipment and intangible assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit and loss accounts.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax expense.

The tax currently payable 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 Fund's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

The income of state authorities, budget organizations, local self-government bodies and income of public legal entities established on behalf of the state (excluding income from entrepreneurial activities and interest income) are tax-free.

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 balance sheet 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 goodwill or from the initial recognition (other than in a business combination) 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 Fund has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

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

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

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### **Government subsidies to customers**

The balance of Government subsidies to customers represents the amount of subsidy transferred to the Fund in accordance with requirements of the Presidential Decree and Resolutions to subsidize interest rates on bank loans to be issued to businesses operating in areas affected by the Coronavirus pandemic.

### **Charter capital**

The Fund's capital is comprised of the charter capital, accumulated losses and other reserves. As stated in Note 1, the Fund is a state establishment. The Ministry of Finance of the Republic of Azerbaijan is an executive financial agent for transfer of funds to the Fund. Transfers to and from the Fund are recognized in the Fund's statement of changes in equity at the fair value on the date of payment/receipt.

### **Interest income recognition**

Interest income is recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income, 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.

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

### **Fees and commission**

Fee and commission income is recognized as the related services are performed.

The commission fee for the Government guarantees is calculated in the amount of 0.5% of the total amount of the guarantee issued to the credit organization by the Government from the date that the guarantee is effective. The one-time guarantee fee is calculated at 1% of the loan amount issued by the credit organization, 50% of the guarantee fee is transferred to the Ministry of Finance in accordance with the rules and the rest is recognized as income. The Fund fulfils the role of agent and does not bear liability for the guarantees issued by the Government.

### **Contingencies**

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

### **Offsetting**

Financial assets and liabilities are offset and the net amount is 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 either settle on a net basis, or to realise the asset and settle the liability simultaneously.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

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#### **Staff costs and related contributions**

Wages, salaries, contributions to the Republic of Azerbaijan 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 Fund. The Fund has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the State Social Security Fund under the statutory defined contribution scheme.

#### **Presentation of statement of financial position in order of liquidity**

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, an analysis of assets and liabilities by their expected maturities is presented in Note 22.

#### **4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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

##### **ECL measurement**

Measurement of ECLs is a significant estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 22. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"). The Fund regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

The Fund used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macroeconomic forecasting model.

##### **Significant increase in credit risk ("SICR")**

In order to determine whether there has been a significant increase in credit risk, the Fund compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Fund considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular borrowers. The Fund identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward-looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

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### **Modification of financial assets**

When financial assets are contractually modified (e.g. renegotiated), the Fund assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Fund applies judgment in deciding whether credit-impaired renegotiated loans should be derecognized and whether the new recognized loans should be considered as credit-impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications.

### **Government subsidies to customers**

The balance of Government subsidies to customers represents the amount of subsidy transferred to the Fund in accordance with requirements of the Presidential Decree and Resolutions to subsidize interest rates on bank loans to be issued to businesses operating in areas affected by the Coronavirus pandemic.

The amount of the subsidy balance is payable on government instruction and is not restricted from use in the normal course of business. Therefore, the balance is included as a cash and cash equivalent and recognized as a liability.

## **5 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS**

In the current year, the Fund has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for the year ended December 31, 2023.

**IFRS 17 “Insurance contracts”** – was issued in May 2017 and replaced IFRS 4 “Insurance contracts”. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. An entity shall apply IFRS 17 “Insurance Contracts” to insurance contracts, including reinsurance contracts, it issues; reinsurance contracts it holds; and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts. This standard is not applicable to the Fund.

**Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2** – In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

**Definition of Accounting Estimates – Amendments to IAS 8** – In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

**Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12** – In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

**International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12** – In May 2023 the Board issued amendments to IAS 12, which introduce a mandatory exception in IAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes are effective immediately upon issuance. These amendments provide a mandatory exception in IAS 12, exempting entities from recognizing and disclosing deferred tax assets and liabilities associated with Pillar Two income taxes. The amendments clarify that IAS 12 applies to income taxes arising from legislation implementing the Pillar Two Model Rules by the Organization for Economic Cooperation and Development (OECD). While disclosure requirements are effective later, entities must disclose their application of the exception, separately detail current tax expenses related to Pillar Two income taxes, and provide information on exposure to Pillar Two income taxes for effective and future periods. The transitional provisions apply immediately and retrospectively, with specific disclosure requirements applicable for annual reporting periods starting on or after January 1, 2023, excluding any interim period ending on or before December 31, 2023.

Unless otherwise disclosed, the new standards did not have a material effect on the financial statements of the Fund.

## 6 STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Fund in advance of their effective dates, the following Interpretations were in issue but not yet effective. The Fund intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IASB has issued “**Lease Liability in a Sale and Leaseback**” (Amendments to IFRS 16) with amendments that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. “**Lease Liability in a Sale and Leaseback**” (Amendments to IFRS 16) requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognizing in profit or loss any gain or loss relating to the partial or full termination of a lease. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

**Amendments to IAS 1: Classification of Liabilities as Current or Non-current** - In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively.

In May 2023 IASB has published "**Supplier Finance Arrangements**" (**Amendment to IAS 7 and IFRS 7**) – These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with transitional reliefs in the first year.

In August 2023 IASB amended **IAS 21 "The Effects of Changes in Foreign Exchange Rates"** to clarify when a currency is exchangeable into another currency and how a company estimates a spot rate when a currency lacks exchangeability. An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency, with a normal administrative delay, and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with the option for early adoption.

On April 9, 2024, the IASB issued a new standard – **IFRS 18, 'Presentation and Disclosure in Financial Statements'** – in response to investors' concerns about the comparability and transparency of entities' performance reporting. The new requirements introduced in IFRS 18 will help to achieve comparability of the financial performance of similar entities, especially related to how 'operating profit or loss' is defined. The key new concepts introduced in IFRS 18 relate to:

- the structure of the statement of profit or loss;
- required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

IFRS 18 will replace IAS 1; many of the other existing principles in IAS 1 are retained, with limited changes. IFRS 18 will not impact the recognition or measurement of items in the financial statements, but it might change what an entity reports as its 'operating profit or loss'.

IFRS 18 will apply for reporting periods beginning on or after January 1, 2027 and also applies to comparative information.



# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

**IFRS 10 “Consolidated Financial Statements” and IAS 28 (amendments) “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”** – The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

Unless otherwise disclosed, the new standards are not expected to have a material effect on the financial statements of the Fund.

### 7 RELATED PARTY BALANCES AND TRANSACTIONS

For the purposes of these financial statements, parties are generally considered to be related if the parties are directly or indirectly under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties. Transactions with related parties may not be considered compatible to the conditions of the transactions between commercially independent parties.

The Fund is controlled by the Government of the Republic of Azerbaijan. Therefore, in accordance with IAS 24 transactions with the Government, government bodies and entities controlled by the government of the Republic of Azerbaijan are included in the related party balances and transactions.

The Fund applied the exemption in paragraph 25 of IAS 24 “Related Party Disclosures” regarding the disclosure requirement for government-related entities.

A reporting entity is exempt from the disclosure requirements of paragraph 18 of IAS 24 “Related Party Disclosures” in relation to related party transactions and outstanding balances, including commitments, with:

- (a) a government that has control or joint control of, or significant influence over, the reporting entity; and
- (b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

The nature of transactions with government-related entities includes purchase of electricity and rendering and receiving other services.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

Details of balances between related parties as at December 31, 2023 and 2022 are disclosed in below table:

	Notes	December 31, 2023		December 31, 2022	
		Related party balances	Total category as per the statement of financial position	Related party balances	Total category as per the statement of financial position
<b>Cash and cash equivalents</b>	8		149,081		143,570
- <i>the government or entities controlled by the government</i>		147,638		141,449	
<b>Investment securities</b>	10		89,326		33,698
- <i>the government or entities controlled by the government</i>		89,326		33,698	
<b>Loans to credit institutions</b>	11		680,693		699,339
- <i>the government or entities controlled by the government</i>		82,533		54,168	

Details of transactions with related parties for the year ended December 31, 2023 and 2022 are disclosed in below table:

	Notes	Year ended December 31, 2023		Year ended December 31, 2022	
		Related party amounts	Total category as per the statement of comprehensive income	Related party amounts	Total category as per the statement of comprehensive income
<b>Other operating income</b>	19		438		1,065
- <i>the government or entities controlled by the government</i>		31		75	
<b>Interest income</b>	18		20,341		13,310
- <i>the government or entities controlled by the government</i>		7,708		1,678	
<b>Recovery of expected credit losses, net</b>	11		1,771		8,945
- <i>the government or entities controlled by the government</i>		2,715		744	

The remuneration of key management personnel included salaries, other short-term benefits and social expenses totalling AZN 697 thousand and AZN 615 thousand for the years ended December 31, 2023 and 2022, respectively.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

### 8 CASH AND CASH EQUIVALENTS

	December 31, 2023	December 31, 2022
Current accounts with the CBAR	147,638	141,449
Current accounts with other credit institutions	<u>1,443</u>	<u>2,121</u>
<b>Total cash and cash equivalents</b>	<b><u>149,081</u></b>	<b><u>143,570</u></b>

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Fund did not recognise any credit loss allowance for cash and cash equivalents. The ECL measurement approach is presented in Note 22.

### 9 DEPOSITS AT BANKS

Deposits at banks comprise:

	December 31, 2023	December 31, 2022
Term deposit in local banks	<u>84,456</u>	<u>65,695</u>
<b>Total deposits at banks</b>	<b><u>84,456</u></b>	<b><u>65,695</u></b>

For the purpose of ECL measurement deposits at banks are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Fund did not recognise any credit loss allowance for deposits at banks. The ECL measurement approach is presented in Note 22.

### 10 INVESTMENT SECURITIES

Investment securities comprise:

	December 31, 2023	December 31, 2022
Fixed income bonds	<u>89,326</u>	<u>33,698</u>
<b>Total investment securities</b>	<b><u>89,326</u></b>	<b><u>33,698</u></b>

The investment securities are classified as amortized cost.

For the purpose of ECL measurement investment securities are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Fund did not recognise any credit loss allowance for investment securities. The ECL measurement approach is presented in Note 22.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

### 11 LOANS TO CREDIT INSTITUTIONS

Loans to credit institutions comprise:

	December 31, 2023	December 31, 2022
Gross carrying amount of loans to credit institutions at AC	925,641	946,058
Less: allowance for expected credit loss	<u>(244,948)</u>	<u>(246,719)</u>
<b>Total loans to credit institutions</b>	<b><u>680,693</u></b>	<b><u>699,339</u></b>

The Fund uses the following credit limit ranges to classify loans:

- Small loans, up to AZN 50,000;
- Medium loans, from AZN 50,001 to AZN 1,000,000;
- Large loans, from 1,000,001 to AZN 10,000,000.

As at December 31, 2023 and 2022, gross carrying amount and allowance for expected credit loss amount for loans to credit institutions at amortised cost by classes are disclosed in the table below:

#### December 31, 2023

	Gross carrying amount	Allowance for expected credit loss	Carrying Amount
Large loans	625,258	(173,766)	451,492
Medium loans	169,936	(26,159)	143,777
Small loans	<u>130,447</u>	<u>(45,023)</u>	<u>85,424</u>
<b>Total loans to credit institutions at AC</b>	<b><u>925,641</u></b>	<b><u>(244,948)</u></b>	<b><u>680,693</u></b>

#### December 31, 2022

	Gross carrying amount	Allowance for expected credit loss	Carrying amount
Large loans	704,173	(174,380)	529,793
Medium loans	137,517	(26,353)	111,164
Small loans	<u>104,368</u>	<u>(45,986)</u>	<u>58,382</u>
<b>Total loans to credit institutions at AC</b>	<b><u>946,058</u></b>	<b><u>(246,719)</u></b>	<b><u>699,339</u></b>

The following tables show reconciliations between opening and closing balances of loans to credit institutions for 2023:

	Stage 1	Stage 2	Stage 3	Total
<b>January 1, 2023</b>	<b>727,245</b>	<b>221</b>	<b>218,592</b>	<b>946,058</b>
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(17,162)	-	17,162	-
New recognized	188,750	-	-	188,750
Other movements	(198,977)	(21)	(10,134)	(209,132)
Write-off	<u>-</u>	<u>-</u>	<u>(35)</u>	<u>(35)</u>
<b>December 31, 2023</b>	<b><u>699,856</u></b>	<b><u>200</u></b>	<b><u>225,585</u></b>	<b><u>925,641</u></b>

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

	Stage 1 (ECL)	Stage 2 (ECL)	Stage 3 (ECL)	Total (ECL)
<b>January 1, 2023</b>	<b>31,335</b>	<b>81</b>	<b>215,303</b>	<b>246,719</b>
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(12,571)	-	12,571	-
Other movements	6,299	65	(8,100)	(1,736)
Write-off	-	-	(35)	(35)
<b>December 31, 2023</b>	<b>25,063</b>	<b>146</b>	<b>219,739</b>	<b>244,948</b>

The following tables show reconciliations between opening and closing balances of loans to credit institutions for 2022:

	Stage 1	Stage 2	Stage 3	Total
<b>January 1, 2022</b>	<b>746,770</b>	<b>82</b>	<b>225,208</b>	<b>972,060</b>
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(138)	138	-	-
Transfer to Stage 3	-	-	-	-
New recognized	140,887	-	-	140,887
Other movements	(160,274)	1	(6,616)	(166,889)
<b>December 31, 2022</b>	<b>727,245</b>	<b>221</b>	<b>218,592</b>	<b>946,058</b>

	Stage 1 (ECL)	Stage 2 (ECL)	Stage 3 (ECL)	Total (ECL)
<b>January 1, 2022</b>	<b>41,358</b>	<b>62</b>	<b>214,244</b>	<b>255,664</b>
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(19)	19	-	-
Transfer to Stage 3	-	-	-	-
Other movements	(10,004)	-	1,059	(8,945)
<b>December 31, 2022</b>	<b>31,335</b>	<b>81</b>	<b>215,303</b>	<b>246,719</b>

Movements in the ECL allowance against loans to credit institutions during the year ended December 31, 2023 are as follows:

	Small Loans	Medium loans	Large loans	Total
<b>Balance at the beginning of the year</b>	<b>(45,986)</b>	<b>(26,353)</b>	<b>(174,380)</b>	<b>(246,719)</b>
Net recovery for the year	963	194	614	1,771
<b>Balance at the end of the year</b>	<b>(45,023)</b>	<b>(26,159)</b>	<b>(173,766)</b>	<b>(244,948)</b>

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

Movements in the ECL allowance against loans to credit institutions during the year ended December 31, 2022 are as follows:

	Small Loans	Medium loans	Large loans	Total
<b>Balance at the beginning of the year</b>	(49,278)	(8,525)	(197,861)	(255,664)
Net recovery(charge) for the year	3,292	(17,828)	23,481	8,945
<b>Balance at the end of the year</b>	<b>(45,986)</b>	<b>(26,353)</b>	<b>(174,380)</b>	<b>(246,719)</b>

Allowance for expected credit loss for loans to credit institutions recognized in the period is impacted by a variety of factors. Details of ECL measurement are provided in Note 22.

As at December 31, 2023, the credit quality of loans to credit institutions carried at amortized cost is as follows:

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Less than 30 days	699,856	-	14,542	714,398
30 to 90 days overdue	-	200	1,833	2,033
91 to 180 days overdue	-	-	45	45
181 to 360 days overdue	-	-	1,701	1,701
Over 360 days overdue	-	-	207,464	207,464
<b>Gross carrying amount</b>	<b>699,856</b>	<b>200</b>	<b>225,585</b>	<b>925,641</b>
Allowance for expected credit loss	(25,063)	(146)	(219,739)	(244,948)
<b>Carrying amount</b>	<b>674,793</b>	<b>54</b>	<b>5,846</b>	<b>680,693</b>

As at December 31, 2022, the credit quality of loans to credit institutions carried at amortized cost is as follows:

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Less than 30 days	727,245	-	902	728,147
30 to 90 days overdue	-	221	-	221
91 to 180 days overdue	-	-	-	-
181 to 360 days overdue	-	-	2,129	2,129
Over 360 days overdue	-	-	215,561	215,561
<b>Gross carrying amount</b>	<b>727,245</b>	<b>221</b>	<b>218,592</b>	<b>946,058</b>
Allowance for expected credit loss	(31,335)	(81)	(215,303)	(246,719)
<b>Carrying amount</b>	<b>695,910</b>	<b>140</b>	<b>3,289</b>	<b>699,339</b>

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

Economic sector risk concentrations within the loan portfolio are as follows:

	December 31, 2023		December 31, 2022	
	Amount	%	Amount	%
Agriculture	532,131	57.49	568,486	60.09
Industry	307,536	33.22	280,461	29.65
Service	85,974	9.29	97,111	10.26
<b>Gross carrying amount of loans to credit institutions carried at amortized cost</b>	<b>925,641</b>	<b>100</b>	<b>946,058</b>	<b>100</b>

## ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

#### 12 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Building	Vehicles	Office and computer equipment	Furniture and fixtures	Intangible assets	Asset under development	Total
<b>Initial cost</b>							
January 1, 2022	6,643	337	631	182	669	-	8,462
Additions	-	199	253	26	57	247	782
Disposals	-	-	(18)	(5)	-	-	(23)
<b>December 31, 2022</b>	<b>6,643</b>	<b>536</b>	<b>866</b>	<b>203</b>	<b>726</b>	<b>247</b>	<b>9,221</b>
Additions	60	-	39	20	231	1,038	1,388
Disposals	-	-	(61)	(29)	-	-	(90)
<b>December 31, 2023</b>	<b>6,703</b>	<b>536</b>	<b>844</b>	<b>194</b>	<b>957</b>	<b>1,285</b>	<b>10,519</b>
<b>Accumulated depreciation and amortization</b>							
January 1, 2022	(836)	(151)	(162)	(159)	(61)	-	(1,369)
Charge for the year	(332)	(113)	(149)	(15)	(65)	-	(674)
Eliminated on disposals	-	-	9	5	-	-	14
<b>December 31, 2022</b>	<b>(1,168)</b>	<b>(264)</b>	<b>(302)</b>	<b>(169)</b>	<b>(126)</b>	<b>-</b>	<b>(2,029)</b>
Charge for the year	(335)	(120)	(186)	(13)	(89)	-	(743)
Eliminated on disposals	-	-	54	29	-	-	83
<b>December 31, 2023</b>	<b>(1,503)</b>	<b>(384)</b>	<b>(434)</b>	<b>(153)</b>	<b>(215)</b>	<b>-</b>	<b>(2,689)</b>
<b>Net book value</b>							
December 31, 2023	5,200	152	410	41	742	1,285	7,830
December 31, 2022	5,475	272	564	34	600	247	7,192

As at December 31, 2023 and 2022, there was no property and equipment subject to pledge as collateral.



# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

### 13 OTHER ASSETS

Other assets comprise:

	December 31, 2023	December 31, 2022
Receivable from Government	-	2,088
Prepayments	69	243
Small amount material items	28	66
Commissions from subsidies	13	-
<b>Total other assets</b>	<b>110</b>	<b>2,397</b>

As at December 31, 2022 receivable from the Government represents subsidies made by the Fund on behalf of the Government. During the year ended 2023, the Government settled the receivable amount in full.

As at December 31, 2023 and 2022, prepayments mainly include advances made to suppliers for purchase of goods, services and property, plant and intangible assets.

### 14 GOVERNMENT SUBSIDIES TO CUSTOMERS

Approved by Decree #1052 of the President of the Republic of Azerbaijan dated June 4, 2020 and Resolution #249 of the Cabinet of Ministers of the Republic of Azerbaijan dated July 9, 2020, funds in the amount of AZN 20,000 thousand in accordance with "Rules for issuing state guarantees and subsidizing interest rates on bank loans to be issued to businesses operating in areas affected by the coronavirus (COVID-19) pandemic" and in the amount of AZN 50,000 thousand in accordance with "Rules for subsidizing interest rates on the existing loan portfolio of businesses operating in areas affected by the coronavirus (COVID-19) pandemic" were transferred to the Fund. The Fund provides subsidies for 50 percent of interest to be paid on state-guaranteed loans and 10 percent of interest to be paid on the existing portfolio loans by using funds from the Government.

During the years ended December 31, 2023 and 2022, AZN 13,531 thousand and AZN 7,320 thousand, correspondingly were transferred to the Fund in accordance with "Rules for issuing state guarantees and subsidizing interest rates on bank loans to be issued to businesses operating in areas affected by the coronavirus (COVID-19) pandemic".

During the years ended December 31, 2023 and 2022, the Fund paid interest subsidies in the amount of AZN 10,618 thousand and AZN 26,100 thousand for state-guaranteed loans, respectively.

As at December 31, 2023, the balance of the unallocated portion of provided subsidies by the government amounted to AZN 825 thousand.

As at December 31, 2022 the Fund had receivable from the government for subsidies paid on behalf of the Government.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

### 15 OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2023	December 31, 2022
Deferred income	10	10
Tax payables	-	9
Others	2	1
<b>Total other liabilities</b>	<b>12</b>	<b>20</b>

### 16 CHARTER CAPITAL

Pursuant to Decree #224 of the President of the Republic of Azerbaijan dated July 31, 2018, the National Fund for Entrepreneurship Support of the Republic of Azerbaijan was liquidated and new public legal entity, the Entrepreneurship Development Fund was established under the Ministry of Economy. As at December 31, 2023 and 2022, authorized charter capital of the Fund amounted to AZN 1,007,307 thousand, respectively.

### 17 OTHER RESERVES

The Fund prepares budget planning and makes predetermined payments to the Ministry of Economy from its own preferential loan revenues. During 2023 and 2022, the funds in the amount of AZN 700 thousand and AZN 759 thousand were paid by the Fund to the Ministry of Economy, respectively.

During 2023 and 2022, the Fund paid subsidies from its own cash and cash equivalents in the amount of AZN 3,030 thousand and AZN 8,020 thousand on behalf of the Government for existing portfolio loans, respectively.

During 2023 and 2022, the Fund was refunded subsidies paid from its own cash and cash equivalents in the amount of AZN 15 thousand and AZN 19 thousand, respectively.

The Government allocates a certain amount of money annually to enable the Fund to carry out its own activities. On November 29, 2023 and November 22, 2022 the Government transferred funds in the amount of AZN 50,000 thousand and AZN 120,000 thousand, respectively to the Fund.

As at December 31, 2023 and 2022, other reserves of the Fund constituted AZN 151,126 thousand and AZN 104,841 thousand, respectively.

### 18 INTEREST INCOME

Interest income comprises:

	Year ended December 31, 2023	Year ended December 31, 2022
Interest income on fixed income bonds	7,135	1,077
Interest income on loans to local banks	6,926	7,332
Interest income on deposits placed at local banks	6,019	4,666
Interest income on loans to non-bank credit institutions	261	235
<b>Total interest income</b>	<b>20,341</b>	<b>13,310</b>

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

### 19 OTHER OPERATING INCOME

Other operating income comprises:

	Year ended December 31, 2023	Year ended December 31, 2022
Guarantee and commission fee	438	1,063
Other	-	2
<b>Total other operating income</b>	<b>438</b>	<b>1,065</b>

A significant part of the Fund's other operating income for the years ended December 31, 2023 and 2022 consisted of commission fee and one-time guarantee fee received from credit institutions due to the issuance of state guarantees for loans to businesses operating in areas affected by the COVID-19 pandemic.

### 20 OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2023	Year ended December 31, 2022
Staff costs	5,430	5,094
Depreciation and amortization of property, equipment and intangible assets	743	674
Professional services	494	334
Repairs and maintenance expenses	159	73
Business travel and related expenses	93	77
Office supplies	92	62
Security expenses	64	64
Bank commissions	58	61
Communication expenses	48	54
Insurance expense	42	51
Utility expenses	30	30
Other expenses	189	102
<b>Total operating expenses</b>	<b>7,442</b>	<b>6,676</b>

### 21 INCOME TAX EXPENSE

The Fund measures and records its current income tax liability and its tax bases related to assets and liabilities in accordance with the statutory tax regulations of the Republic of Azerbaijan where the Fund operates, which differ from IFRS. The Fund is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

The tax legislation of the Republic of Azerbaijan, in particular, may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result, the Fund may be assessed additional taxes, penalties and interest which could be material for these financial statements.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

As at December 31, 2023 and 2022, the Fund did not recognize any deferred tax asset regarding its net deductible temporary differences. The Fund assumes that it is not probable that future taxable profits will be available against which the deductible temporary differences can be utilized.

For the year ended December 31, 2023, income tax expense amounts to AZN 2,605 thousand (2022: AZN 1,135 thousand).

## 22 FINANCIAL RISK MANAGEMENT

The risk management function within the Fund is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Each individual within the Fund is accountable for the risk exposures relating to his or her responsibilities. The Fund is exposed to credit, market and operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Fund's strategic planning process.

The Supervisory Board is ultimately responsible for controlling risks; however, there are separate business units responsible for managing and monitoring the various risks:

### **Management Board**

The Chairman of the Board is responsible for the overall risk management approach, risk tolerance levels and for approving the main principles of risk management.

### **Internal control policies and procedures**

Although the Supervisory Board is ultimately responsible for controlling risks, the Management Board has responsibility for the development, implementation and maintaining of internal controls in the Fund that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- Proper and comprehensive risk assessment and management;
- Proper management and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- Completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- Reliability of IT systems, data and systems integrity and protection;
- Determination of risk of fraudulent or illegal activities, including misappropriation of assets;
- Compliance with laws and regulations.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management periodically implements additional controls or modifies existing controls as considered necessary.

The Fund developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the recording, reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Training and professional development.

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity.

Compliance with the laws and regulations of the Fund is supported by periodic reviews undertaken by the Chamber of Accounts of the Republic of Azerbaijan.

Requirements for the Fund's risk management and internal control systems are approved by the Supervisory Board of the Fund and risk management and internal control systems are corresponding to the volume, nature and complexity of operations.

### **Risk management policies and procedures**

Management of risk is fundamental to the Fund's work and is an essential element of the Fund's operations. The risk management policies aim to identify, analyse and manage the risks faced by the Fund, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervision Board approves risk management strategy, relevant policies and procedures.

Assets-liabilities and risk management strategy adopted by the Fund incorporate policies on risk management, credit, liquidity, currency, operational and other risks through the Supervision Board of the Fund.

Both external and internal risk factors are identified and managed throughout the Fund. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the monitoring group monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Monitoring of the projects is an integral part of the risk management process of the Fund. According to the guidance determined by the Fund, the correspondent credit institutions are conducting monitoring of each entrepreneur's projects financed through the Fund's resources not less than twice a year and reports are presented to the Fund. The structure and template of the report are determined by the Fund. Then correspondent credit institutions should demand entrepreneurs to repay the principal and interest amounts prior to the maturity if inappropriate use of the Fund's resources were identified during the monitoring. The correspondent credit institutions should repay the total principal and interest amounts on the specific defaulted project to the Fund without regard of their obligations of fulfilment within ten banking days.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

Monitoring of the entrepreneurs could be conducted independently by the Fund in order to control appropriate use of the Fund's resources by the entrepreneurs. If inappropriate use of the Fund's resources were identified during the monitoring, the correspondent credit institutions should repay the principal and interest amounts on the specific defaulted project to the Fund upon the Fund's written request without regard of the entrepreneurs' obligations of fulfilment within ten banking days. The correspondent credit institutions are charged penalties if they delay to repay the amount upon the Fund's request.

The Fund takes appropriate legislative measures to redeem its resources if the duration of delay is more than thirty calendar days. If the payment of required resources is delayed for more than thirty calendar days, the Fund takes appropriate legal measures to redeem its resources.

### **Redeeming of the Fund's resources**

If the correspondent credit institutions breach identified terms of monitoring three times, then Fund may repeal the main and additional limits established for these correspondent credit institutions or exclude these institutions from the list of correspondent credit institutions.

### **Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in interest rate, equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices. The Fund has no significant concentration of market risk.

### **Credit risk**

Credit risk is the risk of financial loss to the Fund if an authorised lending agency fails to meet its contractual obligations. The Fund has policies and procedures for the management of credit exposures through setting up limits for financing loans of borrowing credit institutions. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

An individual ceiling is set by the Supervision Board of the Fund for each authorised lending agency at the beginning of each year based on its aggregate capital and appropriate financial data. After exceeding this limit, the Supervision Board of the Fund, based on repaid loans, as well as other inflows, can set additional limit for financing investment projects of entrepreneurship entities against requests of the authorized lending agencies.

The total value of the balance of assets mobilized from the Fund can be up to 100% of aggregate capital of authorized banks and 100% of charter capital of non-banking credit organizations.

Corresponding loan applications reflecting financial information on credit institutions are prepared by the partner relations department, and are passed on to the Supervisory Board of the Fund for approval of the credit limits for authorised credit institutions. In order to monitor credit risk exposures, regular reports are produced by the monitoring group's officer based on a structured analysis focusing on the customer's business and financial performance. The Fund uses formalised internal credit ratings to monitor exposure to credit risk. Management monitors and follows up on past due balances.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

The Fund's monitoring group reviews the ageing analysis of outstanding loans and follows up on past due balances. Therefore, Management considers it appropriate to provide ageing and other information about credit risks.

Apart from individual customer analysis, the credit portfolio is assessed by the Department of Finance and Accounting with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	December 31, 2023	December 31, 2022
Cash and cash equivalents	149,081	143,570
Deposits at banks	84,456	65,695
Investment securities	89,326	33,698
Loans to credit institutions	680,693	699,339
<b>Total on-balance sheet exposure</b>	<b>1,003,556</b>	<b>942,302</b>

### Credit risks concentration

The Fund is exposed to concentrations of credit risk. As at December 31, 2023 the Fund had 1 counterparty with aggregated loan balance above AZN 100,000 thousand (2022: 1 counterparties). The total aggregate amount of these balances was AZN 169,896 thousand (2022: AZN 205,926 thousand) or 18% of the total loans to credit institutions (2022: 22%).

As at December 31, 2023, the credit quality of financial assets may be summarized based on rating assigned by Standard&Poors as follows:

Financial statement category	BB+	BB-	B+	B	B-	Not rated	Total
Cash and cash equivalents	147,638	1,443	-	-	-	-	149,081
Deposits at banks	-	5,025	-	60,850	-	18,581	84,456
Investment securities	89,326	-	-	-	-	-	89,326
Loans to credit institutions	-	338,714	3,879	151,400	-	186,700	680,693
<b>Total</b>	<b>236,964</b>	<b>345,182</b>	<b>3,879</b>	<b>212,250</b>	<b>-</b>	<b>205,281</b>	<b>1,003,556</b>

As at December 31, 2022, the credit quality of financial assets may be summarised based on rating assigned by Standard&Poors as follows:

Financial statement category	BB+	BB-	B+	B	B-	Not rated	Total
Cash and cash equivalents	141,449	-	2,121	-	-	-	143,570
Deposits at banks	-	-	-	21,621	21,139	22,935	65,695
Investment securities	33,698	-	-	-	-	-	33,698
Loans to credit institutions	-	27,222	238,004	117,743	81,556	234,814	699,339
<b>Total</b>	<b>175,147</b>	<b>27,222</b>	<b>240,125</b>	<b>139,364</b>	<b>102,695</b>	<b>257,749</b>	<b>942,302</b>

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

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### Expected credit loss (ECL) measurement

*Expected credit loss (ECL)* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by adjusting risk of default to the expectations on development of macroeconomic situation in future. ECL measurement is based on four components used by the Fund: Probability of Default (“PD”), Exposure at Default (“EAD”), Loss Given Default (“LGD”) and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit-related commitments is estimated using the Credit Conversion Factor (“CCF”). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period.

PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate (“EIR”) for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument’s *lifetime period*. The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any.

*Discount Rate* is a tool to discount an expected loss to the present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

*Forward-looking information* is the information that includes the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio segment. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Management models *Lifetime ECL*, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

In accordance with the requirements of IFRS 9, the Fund applies the model of expected credit losses for the purposes of provisioning loan commitments, the key principle of which is the timely reflection of the deterioration or improvement of the credit quality of financial instruments taking into account current and forecast information. The amount of expected credit losses recognized as a provision for impairment depends on the degree of change in the credit quality of the financial instrument from the date of its initial recognition.



# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

The expected credit losses for financial instruments are estimated using the General approach, which is applied to financial instruments subject to provisioning in accordance with IFRS 9.

The provisions will be calculated depending on their stage allocation. The stages reflect a level of credit risk of the assets and are defined as follows:

- a. 12-month expected credit losses – These losses are recognized for financial instrument, credit risk of which has not increased significantly since initial recognition.
- b. Lifetime ECL (Stage 2 ECL) – These losses are recognized for not-impaired assets credit risk of which has increased significantly since initial recognition. The provision for stage 2 assets is determined based on lifetime expected credit loss, which reflects the expected losses for assets that default over their remaining maturity.
- c. Lifetime ECL (Losses for credit-impaired financial assets/Stage 3 ECL) – These represent losses for financial instrument that are already credit impaired (defaulted). Lifetime ECL is assessed for impaired (defaulted) assets.

### **Staging approach**

*Significant increase in credit risk criteria:*

- Moody's external rating "Caa1" (or equivalent for S&P and Fitch) and below;
- More than 30 days overdue.
- A credit rating downgrade for 3 and more notches.

*Impairment criteria:*

For the purposes of this Methodology, the concepts of default and credit impairment are equivalent and defined as an event with the characteristics indicated as below:

- More than 90 days overdue;
- Existing of information that counterparty will enter/has entered bankruptcy, insolvency or a similar condition;
- Default according to external rating.

Despite of Fund has direct exposures towards Banks and NBCOs and finances loans towards final clients (which are granted by Banks and NBCOs) which could be used as a collateral in case of Bank's or NBCO's default, analysis shows that portfolio of Bank/NBCO defaults when Bank/NBCO defaults.

For financial institutions (Banks/NBCOs), the probability of default is based on credit rating and corresponding PD based on the S&P rating agency's default and rating migration statistics. Banks have external ratings assessed with external agency ratings. In case of the absence of an external agency rating, assessment is derived from country's rating with 5 notches down.

For integration of forward-looking information to the expected credit losses calculation the Fund determines the dependence between macroeconomic factors and the level of the cumulative share of overdue debt in the credit portfolio of the entire banking sector of the Azerbaijan Republic (according to the Central Bank of Azerbaijan).

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

Macroeconomic functions used for modelling are linear regression between cumulative share of overdue debt and various macro factors. Scope of parameters is limited to those, that could be forecasted with reasonable precision. For integration of forward-looking information into the expected credit losses estimation, dependence of credit risk on macroeconomic factors is determined. The dependent variable is the normalized values of the cumulative share of overdue debt (or its various transformations, for example, absolute changes, relative growth) in the credit portfolio of the entire banking sector of the Azerbaijan Republic. As a form of functional dependence, two-factor linear regression is used.

### **Calculation of Probability of Default (PD) for Portfolio**

Borrowers in each segment are allocated to groups by overdue days number. To assess 1-year PD matrices, number of transitions between overdue days groups (including default state) during 1 year are calculated for each available historical reporting date. Then average number of transitions weighted by number of contracts at each reporting date is calculated. Based on average number of transitions probability of transition from each overdue day's group to default (1-year PD) is calculated. Separate matrices are built for each segment.

The calculation of the annual probability of default is carried out by constructing migration matrices in the context of contracts and using the property of Markov chains.

### **Calculation of Loss Given Default (LGD)**

The approach of LGD calculation is based on historical recoveries analysis. LGD, used for ECL calculation is assessed based on available Bank/NBCO recovery statistics.

For each Bank/NBCO, for each month after default, LGD is calculated as difference between 100% and the discounted cash flow to the loan exposure as of default date ratio. Final LGD value for each month after default is calculated as average LGD for all Banks/NBCOs.

Average interest rate by defaulted Banks/NBCOs was stated as a discounting rate for LGD calculation purposes.

### **Backtesting**

The Fund regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed at least once a year. The results of backtesting are communicated to the Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

### **Currency risk**

Currency risk results from the currency rate fluctuation. Due to the reason that all operations of the Fund are carried out in national currency, the Fund is not directly subject to the currency risk.

### **Interest rate risk**

The Fund takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Fund is not significantly exposed to interest rate risk as the Fund does not have floating rate non-trading financial assets and financial liabilities held as of December 31, 2023 and 2022.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

### Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Fund cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Fund is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

### Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund is not exposed to liquidity risk, as it does not have significant financial liabilities as at December 31, 2023 and 2022.

The following tables provide an analysis, by expected maturities, of amounts recognized in the statement of financial position:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
<b>December 31, 2023</b>						
Cash and cash equivalents	149,081	-	-	-	-	149,081
Deposits at banks	18,824	48,384	17,248	-	-	84,456
Investment securities	10,536	42,999	25,581	10,210	-	89,326
Loans to credit institutions	5,266	5,955	37,012	504,509	127,951	680,693
Government subsidies to customers	(317)	(508)	-	-	-	(825)
<b>Net position based on expected maturities</b>	<b>183,390</b>	<b>96,830</b>	<b>79,841</b>	<b>514,719</b>	<b>127,951</b>	<b>1,002,731</b>
	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
<b>December 31, 2022</b>						
Cash and cash equivalents	143,570	-	-	-	-	143,570
Deposits at banks	-	53,495	12,200	-	-	65,695
Investment securities	-	4,377	9,578	19,743	-	33,698
Loans to credit institutions	2,496	3,828	8,234	474,567	210,214	699,339
Other assets	2,088	-	-	-	-	2,088
<b>Net position based on expected maturities</b>	<b>148,154</b>	<b>61,700</b>	<b>30,012</b>	<b>494,310</b>	<b>210,214</b>	<b>944,390</b>

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)*

### 23 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

#### **Legal proceedings**

From time to time and in the normal course of business, claims against the Fund are received. On the basis of its own estimates and both internal and external professional advice, the Management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements.

#### **Tax legislation**

Tax, currency and customs legislation of the Republic of Azerbaijan is subject to varying interpretations, and changes, which can occur frequently. The Management's interpretation of such legislation as applied to the transactions and activities of the Fund may be challenged by the relevant authorities.

Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. The Management believes that its interpretation of the relevant legislation is appropriate and the Fund's tax, currency legislation and customs positions will be sustained.

#### **Capital expenditure commitments**

As at December 31, 2023 and 2022, the Fund had no significant contractual capital expenditure commitments.

### 24 FAIR VALUE DISCLOSURES

Fair value measurements are analysed by level in the fair value hierarchy as follows: (I) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (II) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (III) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy.

If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

As at December 31, 2023 and 2022, there are no financial instruments measured at fair value recognized in the statement of financial position.

The management does not estimate fair values of financial instruments except investment securities.

# ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

The table below sets out the carrying amounts and fair value of investment securities as at December 31, 2023:

	Amortized cost	Total carrying amount	Fair value
Investment securities	89,326	89,326	90,055
	<u>89,326</u>	<u>89,326</u>	<u>90,055</u>

The table below sets out the carrying amounts and fair value of investment securities as at December 31, 2022:

	Amortized cost	Total carrying amount	Fair value
Investment securities	33,698	33,698	34,416
	<u>33,698</u>	<u>33,698</u>	<u>34,416</u>

### Assets and liabilities not measured at fair value but for which fair value is disclosed

For assets and liabilities maturing within three months, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For all others, the fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates for new instruments with similar credit risk and remaining maturity.

Management considers that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values and categorised in the Level 2 fair value hierarchy.

## 25 PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently.

As at December 31, 2023 and 2022, all of the Fund's financial assets and liabilities were carried at amortized cost.