Karabakh Revival Fund

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2022

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CONTENTS

INDEPENDENT AUDITOR'S REPORT

Financial Statements

Notes to the Financial Statements

Independent Auditor's Report

To the Supervisory Board and Management of the Karabakh Revival Fund:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Karabakh Revival Fund (the "Fund") as at 31 December 2022, and the Fund's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at 31 December 2022;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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 International Financial Reporting Standards, 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 has no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement of the 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 auditor's 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 auditor's 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.

PricewaterhouseCoopers Audit Azerbaijan LLC

Azərbaycan Respublikası "PraysvoterhausKupers Audit Azərbaycan" Məhdud Məsuliyyətli Cəmiyyəti * Azerbaijan Republic "PricewaterhouseCoopers Audit Azerbaijan" Limited Liability Company *

Baku, Republic of Azerbaijan

31 May 2023

In Azerbaijani Manats	Note	31 December 2022	31 December 2021
ASSETS			
Non-current assets			
Property, plant and equipment		322,640	340,542
Intangible assets		60,377	61,104
Investment in debt securities	8	652,103,825	289,052,501
Total non-current assets		**652,486,842**	**289,454,147**
Current assets			
Donated assets		3,990,661	-
Inventories		18,082	11,672
Prepayment		3,003	64,536
Investment in debt securities	8	10,536,354	27,754,823
Cash and cash equivalents	9	571,086,799	573,162,502
Other tax prepayment		2,225	781
Total current assets		**585,637,124**	**600,994,314**
TOTAL ASSETS		**1,238,123,966**	**890,448,461**
EQUITY			
Charter capital		1,000,000	1,000,000
Retained earnings		1,231,159,433	888,343,129
TOTAL EQUITY		**1,232,159,433**	**889,343,129**
LIABILITIES			
Current liabilities			
Trade and other payables		164	112
Current income tax payable	13	5,964,369	1,105,220
Total current liabilities		**5,964,533**	**1,105,332**
TOTAL LIABILITIES		**5,964,533**	**1,105,332**
TOTAL LIABILITIES AND EQUITY		**1,238,123,966**	**890,448,461**

Approved for issue and signed on 31 May 2023

Azərbaycan Respublikası Publik Hüquqi Şəxs QDF Qarabağ Dirçəliş Fondu

Rahman Hajiyev
Chairman of Executive Board

Ramil Aliyev
Finance Department Head

In Azerbaijani Manats	Note	2022	2021
Income from donations	10	314,519,877	892,206,306
Finance income	11	34,454,187	9,198,829
Gross Profit		**348,974,064**	**901,405,135**
General, administrative and other operating expenses	12	(2,737,010)	(533,265)
Net impairment gain/(loss) on financial assets	8,9	3,633,509	(10,351,326)
Operating profit		**349,870,563**	**890,520,544**
Finance cost		(258,346)	(448,700)
Profit before income tax		**349,612,217**	**890,071,844**
Income tax expense	13	(6,795,913)	(1,728,715)
PROFIT FOR THE YEAR		**342,816,304**	**888,343,129**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**342,816,304**	**888,343,129**

Rahman Hajiyev
Chairman of Executive Board

Ramil Aliyev
Finance Department Head

In Azerbaijani Manats	Charter capital	Retained earnings	Total equity
Balance at 1 January 2021	-	-	-
Capital contributions	1,000,000	-	**1,000,000**
Profit for the year	-	888,343,129	**888,343,129**
Total comprehensive income for 2021	-	888,343,129	**888,343,129**
Balance at 31 December 2021	**1,000,000**	**888,343,129**	**889,343,129**
Profit for the year	-	342,816,304	**342,816,304**
Total comprehensive income for 2022	-	342,816,304	**342,816,304**
Balance at 31 December 2022	**1,000,000**	**1,231,159,433**	**1,232,159,433**

Rahman Hajiyev
Chairman of Executive Board

Ramil Aliyev
Finance Department Head

In Azerbaijani Manats	Note	2022	2021
Cash flows from operating activities			
Profit before income tax		349,612,217	890,071,844
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets		42,848	11,901
Net impairment (gains)/losses on financial assets	8,9	(3,633,509)	10,351,326
Contribution of property, plant, and equipment		-	(149,000)
Finance income	11	(34,454,187)	(9,198,829)
Finance cost		258,346	448,700
Operating cash flows before working capital changes		**311,825,715**	**891,535,942**
Increase in donated assets and inventories		(3,997,072)	(11,672)
Decrease/(increase) in prepayment		61,533	(64,536)
(Decrease)/increase in trade and other payables		(88)	112
Decrease in taxes payable		(1,304)	(782)
Changes in working capital		**(3,936,931)**	**(76,878)**
Income taxes paid		(1,936,764)	(623,495)
Net cash from operating activities		**305,952,020**	**890,835,569**
Cash flows from investing activities			
Purchases of property, plant and equipment		(18,239)	(201,839)
Acquisition of intangible assets		(5,981)	(62,707)
Investment in debt securities		(343,501,672)	(314,676,929)
Interest received		30,702,796	6,234,950
Net cash used in investing activities		**(312,823,096)**	**(308,706,525)**
Cash flows from financing activities			
Capital contributions		-	1,000,000
Net cash from financing activities		**-**	**1,000,000**
Effect of exchange rate changes on cash and cash equivalents		(258,346)	(448,700)
Net impairment (gains)/losses on cash and cash equivalents		5,053,719	(9,517,842)
Cash and cash equivalents at the beginning of the year		**573,162,502**	**-**
Cash and cash equivalents at the end of the year	9	**571,086,799**	**573,162,502**

Rahman Hajiyev
Chairman of Executive Board

Ramil Aliyev
Finance Department Head

Azərbaycan Respublikası Publik Hüquqi Şəxs QDF

1 Karabakh Revival Fund and its Operatins

The Karabakh Revival Fund ("Fund") was established by the Decree of the President of the Republic of Azerbaijan on January 4, 2021. The powers of the founder of the Fund are exercised by the President of the Republic of Azerbaijan.

In accorance with Presidential Decree, the general management and control over the activities of the Karabakh Revival Fund is carried out by the Supervisory Board.

The members of Supervisory Board as of 31 December 2022 were as follows:

Mikayil Jabbarov	Chairman of the Supervisory Board. Minister of Economy of the Republic of Azerbaijan.
Mukhtar Babayev	Member of the Supervisory Board. Minister of Ecology and Natural Resources of the Republic of Azerbaijan.
Rovshan Rzayev	Member of the Supervisory Board. Chairman of the State Committee for Refugees and Internally Displaced Persons of the Republic of Azerbaijan
Tural Ganjaliyev	Member of the Supervisory Board. Deputy of National Council of the Republic of Azerbaijan.
Fatma Yildirim	Member of the Supervisory Board. Deputy of National Council of the Republic of Azerbaijan.
Farhad Badalbayli	Member of the Supervisory Board. Rector of Baku Music Academy.
Adalat Muradov	Member of the Supervisory Board. Rector of Azerbaijan State University of Economics
Kamal Abdulla	Member of the Supervisory Board. Rector of Azerbaijan University of Languages
Alim Gasimov	Member of the Supervisory Board. Public Figure

Principal activity. The Fund provides financial support and attracts investments in the measures taken to restore and reconstruct the liberated territories of the Republic of Azerbaijan, as well as transform it into a sustainable economy and properous region. The Fund is a public legal entity that carries out the development of public-private partnership in the field, as well as the necessary campaign work inside and outside the country for building and managing relationships to involve the vast resources of Azerbaijani business, society and the diaspora in this important work by bringing different stakeholders together around the idea of the "Revival of Karabakh".

The current management of the Fund's activities is carried out by the Management Board consisting of 3 members - the chairman and his two deputies. According to the order of the President of the Republic of Azerbaijan dated February 4, 2021, Rahman Hajiyev was appointed Chairman of the Board of the Karabakh Revival Fund.

The Fund financed several projects in Karabakh during 2022: The creation of the statue of Uzeyir Hajibeyli in Shusha; The recovery and reconstruction of the "Creativity Center" in Shusha; The recovery and reconstruction of the building of " Carpet Museum" and others. The project of Uzeyir Hajibeyli has been completed while others are still in progress.

Registered address and place of the Fund. The Fund's registered adress is 84 Uzeyir Hajibayov str., Sabail district, Baku, AZ 1095, the Republic of Azerbaijan. The Fund's principal place of business is Globus Centre, 609 Jafar Jabbarli str., Nasimi district, Baku, AZ 1122, the Republic of Azerbaijan.

Presentation currency. These financial statements are presented in Azerbaijani Manats ("AZN"), unless otherwise stated.

1 Karabakh Revival Fund and its Operations (Continued)

Impact of COVID-19 Pandemic: In March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Azerbaijan authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. Some of those measures were subsequently relaxed and in May 2023 WHO announced that Global health emergency of COVID-19 is over.

Impact of Russia-Ukraine War: The geopolitical situation in Eastern Europe intensified on 24 February 2022, with Russia's invasion of Ukraine. The war is increasingly affecting economic and global financial markets and exacerbating ongoing economic challenges, including issues such as rising inflation and global supply-chain disruption. The long-term effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from the actual results, but this war has no impact to the Fund's business operations.

2 Operating Environment of Fund

The Republic of Azerbaijan. The Fund's operations are primarily located in Azerbaijan. Consequently, 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 business environment, therefore government took all required actions to keep the exchange rate stable over the past 5 years. As a result, continuous fluctuation in the global oil prices did not affect the local currency and therefore did not increase uncertainty of the business environment. Sustainability of cease-fire arrangement over 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.

On 31 March 2023, Fitch Ratings has affirmed Azerbaijan's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB+' with a Positive Outlook.

3 Significant Accounting Policies

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

The preparation of financial statements in conformity with IFRS 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.

Foreign currency translation. The functional currency of the Fund is the currency of the primary economic environment in which it operates. The functional and presentation currency of the Fund is the national currency of the Republic of Azerbaijan, Azerbaijani Manats ("AZN"). The financial statements are presented in Azerbaijani Manats ("AZN"), which is the Fund's presentation currency.

Transactions and balances. Monetary assets and liabilities are translated into the Fund's functional currency at the official exchange rate of the Central Bank of the Azerbaijan Republic ("CBAR") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Fund's functional currency at year-end official exchange rates of the CBAR are recognized in profit or loss. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'.

3 Significant Accounting Policies (Continued)

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2022, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.7000, EUR 1 = AZN 1.8114 (2021: USD 1 = AZN 1.7000, EUR 1 = AZN 1.9265).

Property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Property, plant and equipment includes assets under construction for future use as property, plant, and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year. An impairment loss recognized for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss for the year.

Depreciation. Land and construction-in-progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

	Useful lives in years
Vehicles	10 years
Computers, furniture and other equipments	9 years

The residual value of an asset is the estimated amount that the Fund would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Fund's intangible assets have definite useful life and primarily include capitalised computer software licenses and network management softwares for newly purchased equipments. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

	Useful lives in years
Computer software and licences	10 years

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Impairment of non-financial assets. Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

3 Significant Accounting Policies (Continued)

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Financial Instruments - key measurement terms. 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 valuations 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 ("AC") is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses *("ECL")*. 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 gross carrying amount of the financial instrument.

Financial instruments – initial recognition. Financial instruments at FVTPL 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.

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

3 Significant Accounting Policies (Continued)

The Fund's financial assets include cash and cash equivalents and investment in debt securities. Subsequent to initial recognition, all Fund`s financial assets, are measured at amortised cost.

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 and how managers are compensated. 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, 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.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. 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.

Financial assets impairment – credit loss allowance for ECL. The Fund assesses, on a forward-looking basis, the ECL for debt instruments measured at AC. The Fund measures ECL and recognizes net impairment losses 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.

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 15 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.

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.

3 Significant Accounting Policies (Continued)

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.

Financial assets – derecognition. The Fund derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Fund has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the 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 additional restrictions on the sale.

Investment in debt securities. Investment in debt securities includes investment in bonds of Ministry of Finance of the Republic of Azerbaijan. Investment in debt securities are recognized initially at fair value less transaction cost and are subsequently 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.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. 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. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/credit comprises current tax and deferred tax and is recognized in profit or loss for the year, except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within general, administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Donated assets. Donated assets are recorded at the lower of cost and net realisable value. As the total cost of the donated assets is zero, they are measured at fair value on initial recognition, which is the expected proceeds from sale less the expected costs of sale.

3 Significant Accounting Policies (Continued)

Prepayments. Prepayments are carried at cost less provision for impairment if needed. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Fund has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Fund. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in profit or loss for the year.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as an interest expense.

Income from donation. The Fund earns revenue from donations of corporate entities and individuals. These contributions are recognized as revenue once they are received.

Interest income. 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 fee received between the parties to the contract that are an integral part of the effective interest rate, all other premiums or discounts.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) 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, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

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 significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Initial recognition of related party transactions. In the normal course of business the Fund enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 7.

4 Critical Accounting Estimates and Judgements in Apllying Accounting Policies (Continued)

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 15. 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"), as well as models of macro-economic scenarios. The Fund regularly reviews and validates the models and inputs o the models to reduce any differences between expected credit loss estimates and actual credit loss experience

A 10% increase or decrease in PD and LGD estimates at 31 December 2022 would result in an increase or decrease in total expected credit loss allowances of AZN 1,193,056 (2021: AZN 2,180,086).

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.

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

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets. The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement. The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL. The Fund identified and considered contractual terms that change the timing or amount of contractual cash flows.

4 Critical Accounting Estimates and Judgements in Apllying Accounting Policies (Continued)

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

5 Adoption of New or Revised Standards and its Interpretations

The following amended standards became effective from 1 January 2022, but did not have a material impact on the Fund:

- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, and which the Fund has not early adopted.

- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).
- Transition option for insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).
- Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

The Fund is currently assessing the impact of the above mentioned amendments on its financial statements.

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

7 Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

All government entities are considered to be entities under common control with the Fund. Transactions with such entities are disclosed below as a related party:

At 31 December 2022 and 31 December 2021, the outstanding balances with related parties were as follows:

In Azerbaijani Manats	2022 Government and government owned entities	2021 Government and government owned entities
Gross amount of investments in debt securities	664,893,873	317,640,808
Gross amount of cash and cash equivalents	568,450,037	584,155,588
Credit loss allowance	(6,643,461)	(10,348,172)

At 31 December 2022 and 31 December 2021, the transactions with related parties were as follows:

In Azerbaijani Manats	2022 Government and government owned entities	2021 Government and government owned entities
Income from donations	1,723,009	2,543,509
Interest income on debt securities	34,454,187	9,198,829
Net impairment gain/(loss) on financial assets	3,704,706	(10,348,172)

Key management compensation. Key management is represented by Chief Executive Officer (CEO) and the CEO is entitled to salaries in accordance with the approved payroll matrix. During 2022, compensation of key management personnel totalled AZN 41,343 (2021: AZN 33,230).

8 Investment in Debt Securities

The table below discloses investments in debt securities at 31 December 2022 and 31 December 2021 by measurement categories and classes:

In Azerbaijani Manats	2022 Debt securities at Amortized Cost	2021 Debt securities at Amortized Cost
Government bonds of the Ministry of Finance	664,893,873	317,640,808
Total investments in debt securities (gross carrying value)	664,893,873	317,640,808
Credit loss allowance	(2,253,694)	(833,484)
Total investments in debt securities at 31 December (carrying value)	**662,640,179**	**316,807,324**

8 Investment in Debt Securities (Continued)

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2022 and 31 December 2021 based on credit risk grades and discloses the balances by stage for the purpose of ECL measurement. Refer to Note 15 for the description of credit risk grading system used by the Fund and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC. The carrying amount of debt securities at AC at 31 December 2022 and 31 December 2021 below represents the Fund's maximum exposure to credit risk on these assets:

	2022	2021
In Azerbaijani Manats	**Stage 1 (12-months ECL)**	**Stage 1 (12-months ECL)**
Azerbaijan government bonds		
- BB+	664,893,873	317,640,808
Gross carrying amount	**664,893,873**	**317,640,808**
Credit loss allowance	(2,253,694)	(833,484)
Carrying amount	**662,640,179**	**316,807,324**

These securities are issued in local currency, Azerbaijan manats and repayment is guaranteed by the Government of Azerbaijan.

Movements in the credit loss allowance and in the gross amortised cost amount of bonds carried at AC in 2022 were as follows:

	Credit loss allowance		Gross carrying amount	
in Azerbaijani Manats	**Stage 1 (12-months ECL)**	**Total**	**Stage 1 (12-months ECL)**	**Total**
Azerbaijan government bonds				
At 31 December 2021	**(833,484)**	**(833,484)**	**317,640,808**	**317,640,808**
New originated or purchased	(1,251,912)	(1,251,912)	376,323,672	376,323,672
Derecognised during the period	66,695	66,695	(32,822,000)	(32,822,000)
Changes in accrued interest	(13,121)	(13,121)	3,751,393	3,751,393
Other movements	(221,872)	(221,872)	-	-
At 31 December 2022	**(2,253,694)**	**(2,253,694)**	**664,893,873**	**664,893,873**

8 Investment in Debt Securities (Continued)

Movements in the credit loss allowance and in the gross amortised cost amount of bonds carried at AC in 2021 were as follows:

	Credit loss allowance		**Gross carrying amount**	
in Azerbaijani Manats	**Stage 1 (12-months ECL)**	**Total**	**Stage 1 (12-months ECL)**	**Total**
Azerbaijan government bonds				
At 1 January 2021	-	-	-	-
New originated or purchased	(825,707)	(825,707)	314,676,929	314,676,929
Changes in accrued interest	(7,777)	(7,777)	2,963,879	2,963,879
At 31 December 2021	**(833,484)**	**(833,484)**	**317,640,808**	**317,640,808**

9 Cash and Cash Equivalents

In Azerbaijani Manats	**2022**	**2021**
Bank balances payable on demand	575,550,922	582,680,344
Less: Impairment loss provision	(4,464,123)	(9,517,842)
Total cash and cash equivalents at 31 December	**571,086,799**	**573,162,502**

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's ratings as follows:

	2022	**2021**
In Azerbaijani Manats	**Bank balances payable on demand**	**Bank balances payable on demand**
BB-	569,158,463	198,100
B+	6,392,459	164,953
B	-	582,317,291
Gross amount of cash and cash equivalents	**575,550,922**	**582,680,344**

The Fund applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all cash and cash equivalents.

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1 and the Fund recognized credit allowance in the amount of AZN 4,464,123 (2021: AZN 9,517,842). The reason of the significant decrease in ECL balance is due to revised credit rating (from B to BB-) of ABB Bank in which 98.8% of cash and cash equivalents are held.

10 Income from Donations

In Azerbaijani Manats	2022	2021
Donations	314,519,877	892,206,306
Total income from donations	**314,519,877**	**892,206,306**

The Fund interacts with international, non-governmental entities and individuals to attract investments in order to exercise its mission of restoring and reconstructing the liberated territories of the Republic of Azerbaijan. The donations are recognized at a point when they are actually received.

11 Finance Income

In Azerbaijani manats	2022	2021
Interest income from investment in debt securities	34,454,187	9,198,829
Total finance income	**34,454,187**	**9,198,829**

12 General, Administrative and Other Operating Expenses

In Azerbaijani Manats	2022	2021
Project costs related to the revival of Karabakh	1,420,666	3,920
Staff cost	651,363	245,930
Rent expense	197,748	48,415
Event organizations with donors	130,058	28,667
Commission fee for purchase of securities	122,790	102,398
Depreciation and amortization expense	42,848	11,901
Repair and maintenance expense	2,322	33,650
Other expenses	169,215	58,384
Total general, administrative and other operating expenses	**2,737,010**	**533,265**

13 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss comprises the following:

In Azerbaijani Manats	2022	2021
Current tax	6,795,913	1,728,715
Deferred tax	-	-
Income tax expense for the year	**6,795,913**	**1,728,715**

13 Income Taxes (Continued)

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Fund's 2022 and 2021 income is 20%. A reconciliation between the expected and the actual taxation charge is provided below:

In Azerbaijani Manats	2022	2021
Profit before tax	**349,612,217**	**890,071,844**
Theoretical tax charge at statutory rate of 20%:	69,922,443	178,014,369
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(62,903,975)	(178,441,261)
- Non-deductible expenses	504,147	85,342
- Unrecognised potential deferred tax assets	(726,702)	2,070,265
Income tax expense for the year	**6,795,913**	**1,728,715**

As of 31 December 2022, unrecognised potential deferred tax assets include recovery on ECL on financial assets in the amount of AZN 3,633,509. As of 31 December 2021, unrecognised potential deferred tax assets include loss on ECL on financial assets in the amount of AZN 10,351,326.

(c) Deferred taxes analysed by type of temporary difference

During 2022, the Fund earns approximately 90% of its revenue from donations which is tax exempt. Thus balance item formalized through tax exempt operations do not make any temporary difference that results in deferred tax.

14 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Fund may be received. On the basis of its own estimates and both internal and external professional advice, 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.

15 Financial Risk Management

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

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

Exposure to credit risk arises as a result of the Fund's investment securities and other transactions with counterparties, giving rise to financial assets. The Fund's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position.

15 Financial Risk Management (Continued)

Credit risk management. Credit risk is the single largest risk for the Fund's business,management, therefore carefully manages its exposure to credit risk.

The Fund's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investment in government securities:

In Azerbaijani Manats	Note	2022	2021
Investment in debt securities	8	662,640,179	316,807,324
Cash and cash equivalents	9	571,086,799	573,162,502
Total on-balance sheet exposure		**1,233,726,978**	**889,969,826**
Total maximum exposure to credit risk		**1,233,726,978**	**889,969,826**

Principles of Expected Credit Loss (ECL) assessment based on external ratings. Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters Probability of Default (PD) and Loss Given Default (LGD) from the default and recovery statistics published by the respective rating agencies. This approach is applied by the Fund to cash and cash equivalents and government securities exposures.

Probability of default (PD). PD is an estimate of the likelihood of default to occur over a given time period. For every exposure is estimated lifetime PD curve which is dependant from time, credit risk rating and segment. 12-month PD is calculated as part of lifetime PD curve. The Fund uses migration matrixes to calculate lifetime PDs for cash and cash equivalents and investment in government securities.

Loss given default (LGD). 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. It is usually expressed as a percentage of the gross book value. The expected losses are discounted to present value at the end of the reporting period. The LGDs are determined based on the factors that impact the expected recoveries after a default event. The calculation of LGD is based on recovery statistics.

(i) Investment in debt securities. The Fund's investment in debt securities primarily consists of investment in government bonds.

The Fund applied the IFRS 9 general approach to measuring expected credit losses and used a lifetime expected loss allowance.

The level of ECL that is recognised in the financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1).

The following table discloses the credit loss allowance and gross carrying amount for investment in debt securities carried at amortised cost for the end of 2022:

Investment in Debt Securities	**Ratings of S&P**	**Corresponding PD interval**	**Gross amount**	**ECL allowance**
Government bonds	- BB+	0,01% - 0,5%	664,893,873	(2,253,694)
Total			**664,893,873**	**(2,253,694)**

15 Financial Risk Management (Continued)

The following table discloses the credit loss allowance and gross carrying amount for investment in debt securities carried at amortised cost for the end of 2021:

Investment in Debt Securities	Ratings of S&P	Corresponding PD interval	Gross amount	ECL allowance
Government bonds	- BB+	0,01% - 0,5%	317,640,808	(833,484)
Total			**317,640,808**	**(833,484)**

***(ii) Cash and cash equivalents*.** The Fund places its cash with reputable financial institutions in the Republic of Azerbaijan. The Fund continually monitors the status of the financial institutions where its accounts are maintained.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Fund applies risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's).

Credit ratings for 2022 are mapped on an externally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Ratings of S&P	Corresponding PD interval	Gross amount	ECL allowance
- BB-	0,51% – 3%	569,158,463	(4,395,238)
- B+	0,51% – 3%	6,392,459	(68,885)
- B	3% – 10%	-	-
Total		**575,550,922**	**(4,464,123)**

Credit ratings for 2021 are mapped on an externally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Ratings of S&P	Corresponding PD interval	Gross amount	ECL allowance
- BB-	0,51% – 3%	198,100	(1,401)
- B+	0,51% – 3%	164,953	(1,758)
- B	3% – 10%	582,317,291	(9,514,683)
Total		**582,680,344**	**(9,517,842)**

Credit risks concentration. The Fund is exposed to concentrations of credit risk. At 31 December 2022, 98.8% of the Fund's cash and cash equivalents were held at International Bank of Azerbaijan and 100% of investment in debt securities held at National Deposit Center of Republic of Azerbaijan.

Market risk. The Fund takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total. The positions are monitored periodically. The table below summarises the Fund's exposure to foreign currency exchange rate risk at the end of the reporting period:

15 Financial Risk Management (Continued)

In Azerbaijani Manats	At 31 December 2022 Monetary financial assets	Monetary financial liabilities	Net position	At 31 December 2021 Monetary financial assets	Monetary financial liabilities	Net position
AZN	1,073,669,604	28	1,073,669,576	741,049,474	112	741,049,362
EUR	8,088,353	-	8,088,353	6,632,155	-	6,632,155
USD	151,969,021	-	151,969,021	142,288,197	-	142,288,197
Total	**1,233,726,978**	**28**	**1,233,726,950**	**889,969,826**	**112**	**889,969,714**

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Fund, with all other variables held constant:

In Azerbaijani Manats	At 31 December 2022 Impact on profit or loss	Impact on equity	At 31 December 2021 Impact on profit or loss	Impact on equity
US Dollar strengthening by 20%	30,393,804	30,393,804	28,457,639	28,457,639
US Dollar weakening by 20%	(30,393,804)	(30,393,804)	(28,457,639)	(28,457,639)
EUR strengthening by 20%	1,617,671	1,617,671	1,326,431	1,326,431
EUR weakening by 20%	(1,617,671)	(1,617,671)	(1,326,431)	(1,326,431)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Fund.

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. All financial assets and liabilities of the Fund are fixed interest bearing and change in interest rate will not have effect on the statement of profit and loss.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As at reporting date, financial liabilites of the Fund comprises of only trade payable in the amount of AZN 28.

16 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 valuations 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.

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

The carrying values of financial assets and liabilities as at 31 December 2022 and 31 December 2021 are assumed to approximate their fair values. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

17 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. All of the Fund's financial assets and liabilities are carried at amortised cost as at 31 December 2022 and 31 December 2021.

18 Events After Reporting Period

To the date of these financial statements, Fund did not experience significant effect of the COVID-19 developments occurred after the reporting period; the operations of the Fund were not disrupted and the management of the Fund does not expect any impact of the circumstances described above on their financial statements.

During first quarter of 2023, the Fund received income from donations in the amount of AZN 121,075,204 (2022: AZN 151,967,719).