“EXPRESSBANK”
OPEN JOINT STOCK COMPANY

International Financial Reporting Standards
Financial Statements and
Independent Auditors’ Report
For the Year Ended 31 December, 2024

“EXPRESSBANK” OPEN JOINT STOCK COMPANY

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Independent Auditors' Report

To the Shareholders and Supervisory Board of "Expressbank" Open Joint Stock Company

Opinion

We have audited the financial statements of "Expressbank" Open Joint Stock Company (the "Bank"), which comprise the statement of financial position as at December 31, 2024, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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 Bank in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Azerbaijan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Expected credit losses for loans and advances to customers	
The key audit matter	**How the matter was addressed in our audit**
Loans and advances to customers represent 80% of total assets and are stated net of allowance for expected credit losses (“ECL”) that are estimated on a regular basis and are sensitive to the assumptions used. The estimation of expected credit losses requires Management to apply significant judgments and estimation techniques to determine probability of default (PD), projected exposure at default (EAD) and loss given default (LGD), considering observed historical data, current economic situation and available forward-looking information. The calculation of ECL for loans and advances to customers on an individual basis requires scenario analysis of the estimated future cash flows considering current and projected financial performance of the borrowers and estimated proceeds from realizable collateral. Credit loss allowance for loans to customers is a key audit matter due to the significance of the balances to the Bank’s financial position, and the complexity and judgement related to the estimation of ECL under IFRS 9 *Financial Instruments*.	We engaged our own specialists in financial risk management to analyse the key aspects of the Bank’s methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9 *Financial Instruments*. To analyse the adequacy of professional judgement and assumptions made by the management in relation to allowance for ECL estimate we performed the following procedures: - For loans to legal entities, for which potential changes in ECL may have a significant impact on the financial statements, we tested whether the appropriate Stages are correctly assigned by the Bank by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Bank. - We evaluated underlying statistical models, key inputs and assumptions used and assessed incorporation of forward-looking information in the calculation of ECL. We analysed the overall adequacy of the adjustment to account for various scenarios and forward-looking information and compared it with our estimates taking into account the current and future economic situation and operating conditions of borrowers. - For a sample of loans to legal entities, we tested the correctness of data inputs for PD, LGD and EAD calculation comparing to supporting documents. - For loans to individuals, we tested the correctness of data inputs for PD, LGD and EAD calculation, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into the appropriate Stages. We agreed input data to supporting documents on a sample basis. - For loans to individuals and legal entities, we tested the design and operating effectiveness of controls, including involvement of specialists in information risk management, over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems. We also assessed whether the financial statements disclosures appropriately reflect the Bank’s exposure to credit risk.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting 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 Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors’ Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 Bank’s internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Bank 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.

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

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

The engagement partner on the audit resulting in this independent auditors’ report is:

Nasiba Muradkhanova

KPMG Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan

30 May 2025

"EXPRESSBANK" OPEN JOINT STOCK COMPANY

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2024
(in thousands of AZN, unless otherwise indicated)

	Notes	December 31, 2024	December 31, 2023
Assets			
Cash and cash equivalents	6	64,386	70,281
Amounts due from credit institutions	7	1,990	1,904
Loans and advances to customers	8	499,591	412,976
Investments in debt securities	9		
- Pledged with respect to repurchase agreements		11,471	22,957
- Unpledged		17,842	30,245
Property and equipment	10	5,189	6,052
Intangible assets	11	1,262	1,637
Foreclosed property		2,464	2,470
Right of use assets	12	6,609	6,538
Current income tax asset		60	-
Deferred income tax asset	19	2,269	1,995
Other assets	14	9,423	6,176
TOTAL ASSETS		**622,556**	**563,231**
LIABILITIES			
Amounts due to customers	15	296,777	255,938
Amounts due to credit institutions	16	24,620	9,225
Repurchase agreements with financial institutions	17	11,695	23,380
Other borrowed funds	18	136,678	123,696
Current income tax liabilities		-	913
Lease liabilities	12	5,908	5,322
Other liabilities	14	9,397	15,034
TOTAL LIABILITIES		**485,075**	**433,508**
EQUITY			
Share capital	20	112,545	112,545
Revaluation reserve		1,199	1,199
Retained earnings		23,737	15,979
TOTAL EQUITY		**137,481**	**129,723**
TOTAL LIABILITIES AND EQUITY		**622,556**	**563,231**

Signed and authorized for release on behalf of the Management Board of the Bank on May 30, 2025.

"Expressbank" Açıq Səhmdar Cəmiyyəti Azərbaycan Respublikası "Expressbank" Open Joint Stock Company Azerbaijan Republic

Mr. Mehman Mammadov
Chairman of the Management Board

Mrs. Samira Pashayeva
Chief Accountant

"EXPRESSBANK" OPEN JOINT STOCK COMPANY

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2024

(in thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2024	Year ended December 31, 2023
Interest income calculated using the effective interest method	22	64,217	59,522
Interest expense	22	(19,855)	(15,677)
Lease expense	22	(581)	(528)
Net margin on interest income		**47,080**	**43,317**
Charge of expected credit loss	8, 9	(6,079)	(27)
Net margin on interest after charge of expected credit loss		**41,001**	**43,290**
Fee and commission income	23	15,362	12,519
Gains less losses from trading in foreign currencies		4,247	4,549
Other income/(expenses)		1,928	(389)
Non-interest income		**21,537**	**16,679**
Fee and commission expense	23	(10,652)	(8,889)
Net loss from currency translation differences		(65)	(98)
Personnel, general and administrative expenses	24	(37,945)	(33,198)
Other impairment and provisions	13	(96)	(34)
Non-interest expenses		**(48,758)**	**(42,219)**
Profit before tax		**13,780**	**17,750**
Income tax charge	19	(2,820)	(3,984)
NET PROFIT FOR THE YEAR		**10,960**	**13,766**
Other comprehensive income			
Other comprehensive income/(loss) that are not reclassified to profit and loss			
Gain on revaluation of vehicles		-	334
Income tax recorded directly in other comprehensive		-	(67)
Other comprehensive income for the year		**-**	**267**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**10,960**	**14,033**
Earnings per share for profit attributable to the owners of the Bank, basic and diluted (expressed in AZN per share)	25	**36**	**46**

Signed and authorized for release on behalf of the Management Board of the Bank on May 30, 2025.

Mr. Mehman Mammadov
Chairman of the Management Board

Mrs. Samira Pashayeva
Chief Accountant

"EXPRESSBANK" OPEN JOINT STOCK COMPANY

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2024
(in thousands of AZN, unless otherwise indicated)

	Notes	Share capital	Retained earnings	Revaluation reserve	Total
Balance at January 1, 2023		**112,545**	**14,622**	**932**	**128,099**
Net profit for the year		-	13,766	-	13,766
Other comprehensive income for the year		-	-	267	267
Total comprehensive income for the year		-	13,766	267	14,033
Dividends declared	20	-	(12,409)	-	(12,409)
Balance at December 31, 2023		**112,545**	**15,979**	**1,199**	**129,723**
Net profit for the year		-	10,960	-	10,960
Total comprehensive income for the year		-	10,960	-	10,960
Dividends declared	20	-	(3,202)	-	(3,202)
Balance at December 31, 2024		**112,545**	**23,737**	**1,199**	**137,481**

Signed and authorized for release on behalf of the Management Board of the Bank on May 30, 2025.

Mr. Mehman Mammadov
Chairman of the Management Board

Mrs. Samira Pashayeva
Chief Accountant

"EXPRESSBANK" OPEN JOINT STOCK COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024
(in thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2024	Year ended December 31, 2023
Cash flows from operating activities			
Interest received		64,297	52,735
Interest paid		(17,286)	(15,244)
Fees and commissions received		15,400	12,532
Fees and commissions paid		(10,652)	(8,889)
Realized gains less losses from dealing in foreign currencies		4,247	4,549
Personnel expenses paid		(23,089)	(18,919)
General and administrative expenses paid		(11,335)	(9,717)
Income tax paid		(4,068)	(4,636)
Other income received		1,635	339
Cash flows from operating activities before changes in operating assets and liabilities		**19,149**	**12,750**
Net decrease/(increase) in:			
Amounts due from credit institutions		(85)	(318)
Loans and advances to customers		(89,798)	(112,505)
Foreclosed property		299	(728)
Other assets		(2,642)	201
Net (decrease)/increase in:			
Amounts due to customers		38,922	47,295
Amounts due to credit institutions		15,396	3,447
Repurchase agreements with financial institutions		(11,684)	3,802
Other liabilities		43	(727)
Net cash used in operating activities		**(30,400)**	**(46,783)**
Cash flows from investing activities			
Proceeds from redemption of debt securities carried at amortized cost		32,473	47,810
Acquisition of investments in debt securities carried at amortized cost		(8,262)	(53,241)
Acquisition of property and equipment		(1,730)	(1,346)
Acquisition of intangible assets		(12)	(8)
Proceeds from sale of property and equipment		274	320
Net cash provided from/ (used in) investing activities		**22,743**	**(6,465)**
Cash flows from financing activities			
Proceeds from other borrowed funds	18	32,843	83,161
Repayment of other borrowed funds	18	(20,221)	(11,981)
Lease liability paid	12	(1,856)	(2,903)
Dividends paid	20	(8,664)	(12,722)
Net cash provided from financing activities		**2,102**	**55,555**
Effect of exchange rates changes on cash and cash equivalents		(340)	17
Net (decrease)/increase in cash and cash equivalents		**(5,895)**	**2,324**
Cash and cash equivalents at the beginning of the year	6	**70,281**	**67,957**
Cash and cash equivalents at the end of the year	**6**	**64,386**	**70,281**

Signed and authorized for release on behalf of the Management Board of the Bank on May 30, 2025.

Mr. Mehman Mammadov
Chairman of the Management Board

Mrs. Samira Pashayeva
Chief Accountant

The accompanying notes on pages 11 to 71 are an integral part of these financial statements.

(in thousands of AZN, unless otherwise indicated)

1. BACKGROUND

(a) Organization and operations

“Expressbank” Open Joint Stock Company (the Bank) was formed on June 21, 1992 as “Azernagliyyatbank” Commercial Bank operating under the laws of the Republic of Azerbaijan. On March 11, 2005 the legal structure of the Bank was changed to Open Joint Stock Company. The Bank changed its name from Open Joint Stock Commercial Bank “Azernagliyyatbank” to “Expressbank” Open Joint Stock Company on March 5, 2010. The Bank operates under banking license number 119 issued by the Central Bank of the Republic of Azerbaijan (the CBAR) on December 30, 1992.

The Bank accepts deposits from the public and extends credit, transfers payments in Azerbaijan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Baku, and it has 16 branches (2023: 15 branches) in Baku and other cities in Azerbaijan. The Bank’s registered legal address is 134C Y.V. Chamanzaminli St., Baku, AZ1052, the Republic of Azerbaijan.

Starting from August 7, 2007, the Bank is a member of the deposit insurance system. The system operates under the Law on Deposit Insurance and other regulations and is governed by the Azerbaijan Deposit Insurance Fund.

The Bank is officially listed on the standard market effective from January 7, 2020.

As of December 31, 2024 and 2023 the following shareholders owned the outstanding shares of the Bank:

Shareholders	**2024 (%)**	**2023 (%)**
“AZENCO Group” LLC	48.78	48.78
“Enerqoservis” LLC	30.85	30.85
Mr. Hafiz Seyidov	19.99	19.99
State Road Transport Service	0.38	0.38
Total	**100.00**	**100.00**

As at December 31, 2024 and 2023 no one individual shareholder exerts control over the Bank.

(b) Business environment

The Banks’s operations are primarily located in Azerbaijan. Consequently, the Bank 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 ongoing military conflict between the Russian Federation and Ukraine has further increased uncertainty in the business environment.

The financial statements reflect management’s assessment of the impact of the Azerbaijani business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards). The financial statements are prepared under the historical cost convention except for the vehicles which are at fair value and revalued from time to time, and assets held for sale, which are stated at the lower of the carrying amount and fair value less the costs to sell. 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.

(b) Functional and presentation currency

The functional currency of the Bank 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.

At December 31, 2024, the principal rate of exchange used for translating foreign currency balances was USD 1= AZN 1.7000 and EUR 1=AZN 1.7724 (December 31, 2023: USD 1=AZN 1.7000 and EUR 1=AZN 1.8766).

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.

3. MATERIAL ACCOUNTING POLICIES

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 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 quantity 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). Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. Refer to Note 28.

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.

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

The effective interest rate discounts 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 amortized 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. The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at Fair value though profit or loss ("FVPL"), transaction costs are added to, or subtracted from, this amount. 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 recognized for financial assets measured at AC and investments in debt instruments measured at Fair Value through Other Comprehensive Income ("FVOCI"), resulting in an immediate accounting loss.

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 on which the Bank commits to deliver a financial asset. All other purchases are recognized when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Bank classifies financial assets in the following measurement categories: Fair Value through Profit or Loss ("FVTPL"), FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank'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 Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank 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 and how the assets' performance is assessed. Refer to Note 4 for critical judgements applied by the Bank 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 Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

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 Bank 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. The Bank 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 Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts.
The Bank measures ECL and recognizes credit loss allowance 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 recognized as a liability in the statement of financial position.

The Bank 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 Bank 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 27 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 27. Note 27 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

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

Financial assets – derecognition. The Bank derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank 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 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 assets – modification. The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognizes the original financial asset and recognizes a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognized and fair value of the new substantially modified asset is recognized in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate and recognizes a modification gain or loss in profit or loss.

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized;
- If the loan restructuring is not caused by the financial difficulties of the borrower, the loan is no longer considered past due once the terms have been renegotiated.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present values of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for financial guarantee contracts and loan commitments.

Financial liabilities – derecognition. Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognized in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

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 include cash on hand, amounts due from the CBAR, including obligatory reserves of CBAR, and unrestricted balances on correspondent accounts including overnight deposits and deposits with original maturities of less than three months. 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.

Amounts due from credit institutions. Amounts due from credit institutions are placements with other banks and credit institutions with original maturities of more than three months. Amounts due from credit institutions are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Bank 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 Bank 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.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 27 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Loan commitments. The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight-line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

At the end of each reporting period, the commitments are measured at (i) the remaining unamortized balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognized together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognized as a liability.

Financial guarantees. Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognized at their fair value, which is normally evidenced by the amount of fees received.
This amount is amortized on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortized balance of the amount at initial recognition.

Taxation. 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. The current income tax expense is calculated in accordance with the regulations of the Republic of Azerbaijan.

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 the financial statements are authorized prior to filing relevant tax returns. Taxes other than on income are recorded within 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 assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

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

In addition, there are various operating taxes in Azerbaijan such as VAT, property tax, withholding tax and others which become relevant as a result of the Banks's operations. These taxes are included as a component of general and administrative expenses.

Property and equipment. Property and equipment is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

At the end of each reporting period management assesses whether there is any indication of impairment of premises 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 to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss for the year (within other income or general and administrative expenses).

Following initial recognition at cost, vehicles are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.
Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Furniture and fixtures	4-7
Computers and office equipment	5
Vehicles	4-7
Other fixed assets	5
Leasehold improvements	over the term of the contract

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Foreclosed property. The Bank classifies a non-current asset, which the Bank took possession of in respect of non-performing loans and is in the process of selling, as foreclosed property if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The Bank measures a foreclosed property at the lower of its carrying amount and fair value less costs to sell. The Bank recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.
Intangible assets. Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Accounting for leases by the Bank as a lessee. The Bank leases office premises and warehouses. Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognized at cost and depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- the exercise prolongation option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

As an exception to the above, the Bank accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight-line basis.

In determining the lease term, management of the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

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

Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

No rent concessions have been granted to the Bank by lessors during 2024.

Amounts due to customers and credit institutions. Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include customer accounts and term deposits placed by individuals, state and corporate customers, as well as credit institutions. All amounts represent non-derivative liabilities and are carried at AC.

Repurchase agreements. Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within due to credit institutions or Repurchase agreements with financial institutions, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Share capital. Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorized for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

***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 recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

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

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

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

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (ie the asset becomes cured), the asset is reclassified from Stage 3 and the interest revenue is calculated by applying the effective interest rate (EIR) to the gross carrying amount. The additional interest income, which was previously not recognized in P&L due to the asset being in Stage 3 but it is now expected to be received following the asset's curing, is recognized as a reversal of impairment.

Fees and commissions. The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fee and commission income is recognized over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fee and commission income is recognized at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Sales and purchases of foreign currencies and currency conversion. The Bank sells and purchases foreign currencies in the cash offices and through the bank accounts, as well as exchanges foreign currencies. The transactions are performed at the exchange rates established by the Bank, which are different from the official spot exchange rates at the particular dates. The differences between the official rates and Bank rates are recognized as gains less losses from trading in foreign currencies at a point in time when a particular performance obligation is satisfied.

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

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

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

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

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

4. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgments

Information about critical judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Bank 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 Bank considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward-looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 27.

Fair value at initial recognition of Borrowed funds. Management has assessed that the fair value of the Borrowed funds approximates their carrying amount. This assessment is based on the view that there are no other financial instruments comparable to these borrowings in the market. The borrowings are considered to be part of a distinct and separate market, characterized by government-backed, subsidized funding terms that do not fluctuate in alignment with broader market conditions. Consequently, there have been no significant changes in the credit risk profile or prevailing market interest rates (see Note 15).

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Bank 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 Bank 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. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognized nor reclassified out of the credit-impaired stage.

Write-off policy. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due. Cases with a final court decision are moved to the off-balance sheet in the amount determined by the court decision on the basis of the minutes of the Supervisory Board upon the recommendation of the Board of Directors. Therefore, the gross carrying amounts of default loans are written-off. Any subsequent recoveries are credited to credit loss allowance.

Determining lease term. The Bank leases office premises from third parties under contracts which do not have contractual maturity dates and are automatically renewed unless either party submits a termination notice of 3 months. The Bank determines non-cancellable lease period for such leases, taking into consideration penalties that would be incurred upon termination, including economic disincentives such as leasehold improvements, cost of relocating or the importance of the premises to the Bank's operations. As a result, the lease term for most significant office premises has been determined as a period of 3-5 years.

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 27. 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 Bank 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.

5. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

A number of new accounting standards and amendments to accounting standards are effective for annual periods beginning after January 1, 2024 and earlier application is permitted. However, the Bank has not early adopted the new and amended accounting standards in preparing these financial statements.

(i) IFRS 18 Presentation and Disclosure in Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements and applies for annual reporting periods beginning on or after January 1, 2027. The new standard introduces the following key new requirements:

• Entities are required to classify all income and expenses into five categories in the statement of profit or loss, namely the operating, investing, financing, discontinued operations, and income tax categories. Entities are also required to present a newly-defined operating profit subtotal. Entities' net profit will not change.

• Management-defined performance measures (MPMs) are disclosed in a single note in the financial statements.

• Enhanced guidance is provided on how to group information in the financial statements.

• In addition, all entities are required to use the operating profit subtotal as the starting point for the statement of cash flows when presenting operating cash flows under the indirect method.

The Bank is still in the process of assessing the impact of the new standard, particularly with respect to the structure of the Bank's statement of profit or loss, the statement of cash flows, and the additional disclosures required for MPMs.

(ii) Other accounting standards

The following new and amended standards are not expected to have a significant impact on the Bank's financial statements.

• Lack of Exchangeability (Amendments to IAS 21).

• Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7).

(in thousands of AZN, unless otherwise indicated)

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	December 31, 2024	December 31, 2023
Cash on hand	18,259	17,126
Time deposits with CBAR up to 90 days	23,000	30,000
Correspondent accounts and overnight placements with other banks and financial institutions	5,816	10,710
Obligatory reserve with the CBAR	12,726	10,240
Cash balances with the CBAR (other than mandatory reserve deposits)	4,585	2,205
Cash and cash equivalents	**64,386**	**70,281**

At December 31, 2024 the Bank had 8 correspondent accounts with other banks and financial institutions (December 31, 2023: 9 banks) with outstanding balance above AZN 100 thousand. The gross amount of these balances was AZN 5,277 thousand (December 31, 2023: AZN 10,090 thousand).

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at December 31, 2024. Refer to Note 27 for the description of the Bank's credit risk grading system.

	Cash balances with the CBAR	Correspondent accounts and overnight placements	Total
- Excellent	-	3,794	**3,794**
- Good	40,311	1,935	**42,246**
- Satisfactory	-	87	**87**
Total cash and cash equivalents, excluding cash on hand	**40,311**	**5,816**	**46,127**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at December 31, 2023. Refer to Note 27 for the description of the Bank's credit risk grading system.

	Cash balances with the CBAR	Correspondent accounts and overnight placements	Total
-Excellent	-	9,091	**9,091**
- Good	42,445	1,452	**43,897**
- Satisfactory	-	167	**167**
Total cash and cash equivalents, excluding cash on hand	**42,445**	**10,710**	**53,155**

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 Bank did not recognize any credit loss allowance for cash and cash equivalents for the year ended 31 December 2024 and 2023. Refer to Note 27 for the ECL measurement approach.

(in thousands of AZN, unless otherwise indicated)

As at 31 December 2024, credit institutions are required to maintain a non−interest earning cash deposit (obligatory reserve) with the CBAR at 5% of the previous month average balances of certain liabilities in AZN and 6% of the previous month average balances of certain liabilities in foreign currencies respectively, attracted from customers by the credit institutions (2023: 5% and 6% respectively).

7. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	December 31, 2024	December 31, 2023
Pledged accounts with credit institutions	1,990	1,904
Amounts due from credit institutions	**1,990**	**1,904**

As at December 31, 2024 included in balances Due from credit institutions are blocked guarantee deposits placed by the Bank for its plastic cards operations totalling AZN 1,990 thousand (December 31, 2023: AZN 1,904 thousand).

For the purpose of ECL measurement due from credit institutions balances are included in Stage 1.

The following table contains an analysis of balances due from credit institutions by credit quality at December 31, 2024 based on credit risk grades. Refer to Note 27 for the description of credit risk grading system used by the Bank. The carrying amounts of due from credit institutions balances at December 31, 2024 and 2023 below also represent the Bank's maximum exposure to credit risk on these assets:

	December 31, 2024	December 31, 2023
Placements with other banks		
- Excellent	1,990	1,904
Carrying amount	**1,990**	**1,904**

As at December 31, 2024 there is no impairment allowance for amounts due from credit institutions (December 31, 2023: nil).

(in thousands of AZN, unless otherwise indicated)

8. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers comprise:

	December 31, 2024	December 31, 2023
Gross carrying amount of loans and advances to customers at AC	509,942	419,327
Less credit loss allowance	(10,351)	(6,351)
Total loans and advances to customers	**499,591**	**412,976**

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at December 31, 2024 and 2023 are disclosed in the table below:

	December 31, 2024			December 31, 2023		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Loans to corporate customers						
Corporate loans	112,668	(2,260)	110,408	99,166	(1,959)	97,207
Loans to individuals						
General purpose consumer loans	224,053	(7,237)	216,816	190,657	(3,601)	187,056
Mortgage loans	108,838	(228)	108,610	101,924	(225)	101,699
Micro-business loans	64,383	(626)	63,757	27,580	(566)	27,014
Total loans and advances to customers at AC	**509,942**	**(10,351)**	**499,591**	**419,327**	**(6,351)**	**412,976**

During 2023 the Bank acquired AZN 55,283 thousand mortgage portfolios from Gunaybank OJSC and Muganbank OJSC. The acquisition has been made in accordance with the mentioned two defaulted banks, which licenses were revoked by the decision of the Management Board of the Central Bank of the Republic of Azerbaijan dated 16 May 2023 and 18 October 2023 respectively.

As at December 31, 2023 included in balances Mortgage loans are loans obtained from Gunaybank OJSC and Muganbank OJSC recognised at fair value at initial recognition, totalling AZN 53,494 thousand.

(in thousands of AZN, unless otherwise indicated)

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

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Corporate loans								
At January 1, 2024	**973**	**228**	**758**	**1,959**	**93,951**	**3,198**	**2,017**	**99,166**
Transfers to Stage 1	93	(93)	-	**-**	469	(469)	-	-
Transfers to Stage 2	(125)	180	(55)	**-**	(2,044)	2,083	(39)	-
Transfers to Stage 3	(39)	(47)	86	**-**	(848)	(324)	1,172	-
New originated or purchased	783	-	-	**783**	83,050	52	136	**83,238**
Derecognized or repaid/remeasurement	(839)	69	31	**(739)**	(67,221)	(2,294)	(345)	**(69,860)**
Change in accrued interest	-	-	-	**-**	(113)	42	(62)	**(133)**
Unwinding of discount (for Stage 3)	-	-	12	**12**	-	-	12	**12**
Write-offs	-	-	(568)	**(568)**	-	-	(568)	**(568)**
Recovery of previously written-off loans	-	-	813	**813**	-	-	813	**813**
At December 31, 2024	**846**	**337**	**1,077**	**2,260**	**107,244**	**2,288**	**3,136**	**112,668**

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Corporate loans								
At January 1, 2023	455	48	1,195	**1,698**	78,881	1,176	3,816	**83,873**
Transfers to Stage 1	-	-	-	**-**	-	-	-	**-**
Transfers to Stage 2	(132)	182	(50)	**-**	(2,320)	2,687	(367)	**-**
Transfers to Stage 3	(6)	(1)	7	**-**	(437)	(131)	568	**-**
New originated or purchased	979	-	-	**979**	82,804	-	-	**82,804**
Derecognized or repaid/remeasurement	(323)	(1)	(3,312)	**(3,636)**	(65,270)	(548)	(5,022)	**(70,840)**
Change in accrued interest	-	-	-	**-**	293	14	104	**411**
Unwinding of discount (for Stage 3)	-	-	64	**64**	-	-	64	**64**
Write-offs	-	-	(917)	**(917)**	-	-	(917)	**(917)**
Recovery of previously written-off loans	-	-	3,771	**3,771**	-	-	3,771	**3,771**
At December 31, 2023	**973**	**228**	**758**	**1,959**	**93,951**	**3,198**	**2,017**	**99,166**

(in thousands of AZN, unless otherwise indicated)

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
General purpose consumer loans								
At January 1, 2024	**1,144**	**246**	**2,211**	**3,601**	**184,824**	**2,625**	**3,208**	**190,657**
- Transfers to Stage 1	95	(82)	(13)	**-**	675	(662)	(13)	-
- Transfers to Stage 2	(2,662)	2,717	(55)	**-**	(9,394)	9,463	(69)	-
- Transfers to Stage 3	(172)	(23)	195	**-**	(1,210)	(236)	1,446	-
New originated or purchased	4,789	-	-	**4,789**	170,321	138	238	170,697
Derecognized or repaid/remeasurement	(511)	386	1,491	**1,366**	(133,320)	(1,050)	(402)	(134,772)
Change in accrued interest	-	-	-	**-**	(173)	74	89	(10)
Unwinding of discount (for Stage 3)	-	-	49	**49**	-	-	49	49
Recovery of previously written-off loans	-	-	2,068	**2,068**	-	-	2,068	**2,068**
Write-offs	-	-	(4,636)	**(4,636)**	-	-	(4,636)	**(4,636)**
At December 31, 2024	**2,683**	**3,244**	**1,310**	**7,237**	**211,723**	**10,352**	**1,978**	**224,053**

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
General purpose consumer loans								
At January 1, 2023	**557**	**60**	**2,045**	**2,662**	**153,234**	**1,267**	**3,195**	**157,696**
- Transfers to Stage 1	97	(5)	(92)	**-**	235	(69)	(166)	**-**
- Transfers to Stage 2	(210)	216	(6)	**-**	(2,798)	2,804	(6)	**-**
- Transfers to Stage 3	(877)	(15)	892	**-**	(3,074)	(231)	3,305	**-**
New originated or purchased	2,042	-	-	**2,042**	160,654	-	-	**160,654**
Derecognized or repaid/remeasurement	(465)	(10)	1,285	**810**	(124,089)	(1,180)	(1,593)	**(126,862)**
Change in accrued interest	-	-	-	**-**	662	34	386	**1,082**
Unwinding of discount (for Stage 3)	-	-	177	**177**	-	-	177	**177**
Recovery of previously written-off loans	-	-	1,909	**1,909**	-	-	1,909	**1,999**
Write-offs	-	-	(3,999)	**(3,999)**	-	-	(3,999)	**(3,999)**
At December 31, 2023	**1,144**	**246**	**2,211**	**3,601**	**184,824**	**2,625**	**3,208**	**190,657**

(in thousands of AZN, unless otherwise indicated)

	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgage loans								
At January 1, 2024	**75**	**19**	**131**	**225**	**100,865**	**761**	**298**	**101,924**
- Transfers to Stage 1	76	(12)	(64)	-	625	(496)	(129)	-
- Transfers to Stage 2	-	-	-	-	(139)	139	-	-
- Transfers to Stage 3	-	(3)	3	-	(282)	(136)	418	-
New originated or purchased	24	-	-	24	15,073	179	10	15,262
Derecognized or repaid/remeasurement	(93)	(4)	70	(27)	(7,953)	(269)	(124)	(8,346)
Change in accrued interest	-	-	-	-	(17)	1	8	(8)
Unwinding of discount (for Stage 3)	-	-	6	6	-	-	6	6
At December 31, 2024	**82**	**-**	**146**	**228**	**108,172**	**179**	**487**	**108,838**

	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgage loans								
At January 1, 2023	**51**	**5**	**-**	**56**	**37,511**	**108**	**-**	**37,619**
- Transfers to Stage 1	4	(4)	-	**-**	75	(75)	-	**-**
- Transfers to Stage 2	(19)	19	-	**-**	(930)	930	-	**-**
- Transfers to Stage 3	(146)	(22)	168	**-**	(308)	(71)	379	**-**
New originated or purchased	233	23	-	**256**	95,350	163	-	**95,513**
Derecognized or repaid/remeasurement	(48)	(2)	(41)	**(91)**	(30,860)	(294)	(85)	**(31,239)**
Change in accrued interest	-	-	-	**-**	27	-	-	**27**
Unwinding of discount (for Stage 3)	-	-	4	**4**	-	-	4	**4**
At December 31, 2023	**75**	**19**	**131**	**225**	**100,865**	**761**	**298**	**101,924**

(in thousands of AZN, unless otherwise indicated)

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Micro-business loans								
At January 1, 2024	**368**	**34**	**164**	**566**	**26,784**	**320**	**476**	**27,580**
- Transfers to Stage 1	16	(16)	-	**-**	91	(91)	-	**-**
- Transfers to Stage 2	(1)	20	(19)	**-**	(52)	93	(41)	**-**
- Transfers to Stage 3	(2)	-	2	**-**	(138)	-	138	**-**
New originated or purchased	365	-	-	**365**	48,480	10	14	**48,504**
Derecognized or repaid/remeasurement	(216)	(31)	(193)	**(440)**	(11,086)	(271)	(436)	**(11,793)**
Change in accrued interest	-	-	-	**-**	(18)	-	(25)	**(43)**
Unwinding of discount (for Stage 3)	-	-	(1)	**(1)**	-	-	(1)	**(1)**
Recovery of previously written-off loans	-	-	387	**387**	-	-	387	**387**
Write-offs	-	-	(251)	**(251)**	-	-	(251)	**(251)**
At December 31, 2024	**530**	**7**	**89**	**626**	**64,061**	**61**	**261**	**64,383**

	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Micro-business loans								
At January 1, 2023	**219**	**13**	**494**	**726**	**23,683**	**234**	**985**	**24,902**
- Transfers to Stage 1	-	-	-	**-**	-	-	-	**-**
- Transfers to Stage 2	(6)	21	(15)	**-**	(328)	343	(15)	**-**
- Transfers to Stage 3	(69)	(13)	82	**-**	(254)	(141)	395	**-**
New originated or purchased	355	-	-	**355**	21,387	-	-	**21,387**
Derecognized or repaid/remeasurement	(131)	13	(581)	**(699)**	(17,731)	(117)	(1,099)	**(18,947)**
Change in accrued interest	-	-	-	**-**	27	1	26	**54**
Unwinding of discount (for Stage 3)	-	-	18	**18**	-	-	18	**18**
Recovery of previously written-off loans	-	-	524	**524**	-	-	524	**524**
Write-offs	-	-	(358)	**(358)**	-	-	(358)	**(358)**
At December 31, 2023	**368**	**34**	**164**	**566**	**26,784**	**320**	**476**	**27,580**

The credit loss allowance for loans and advances to customers recognized in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 27. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period;
- Write-offs of allowances related to assets that were written off during the period.

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognized. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans.

(in thousands of AZN, unless otherwise indicated)

The credit quality of loans to corporate customers carried at amortized cost is as follows at December 31, 2024:

	Stage 1	Stage 2	Stage 3	Total
Corporate loans				
Less than 30 days	107,244	233	1,256	108,733
30 to 90 days overdue	-	2,055	483	2,538
91-180 days overdue	-	-	286	286
181 to 360 days overdue	-	-	577	577
Over 360 days overdue	-	-	534	534
Gross carrying amount	**107,244**	**2,288**	**3,136**	**112,668**
Credit loss allowance	(847)	(337)	(1,076)	(2,260)
Carrying amount	**106,397**	**1,951**	**2,060**	**110,408**
General purpose consumer loans				
Less than 30 days	211,723	7,127	269	219,119
30 to 90 days overdue	-	3,224	24	3,248
91-180 days overdue	-	-	112	112
181 to 360 days overdue	-	-	1,184	1,184
Over 360 days overdue	-	-	390	390
Gross carrying amount	**211,723**	**10,351**	**1,979**	**224,053**
Credit loss allowance	(2,684)	(3,244)	(1,309)	(7,237)
Carrying amount	**209,039**	**7,107**	**670**	**216,816**
Mortgage loans				
Less than 30 days	108,173	-	-	108,173
30 to 90 days overdue	-	179	-	179
91-180 days overdue	-	-	250	250
181 to 360 days overdue	-	-	236	236
Gross carrying amount	**108,173**	**179**	**486**	**108,838**
Credit loss allowance	(58)	(24)	(146)	(228)
Carrying amount	**108,115**	**155**	**340**	**108,610**
Micro-business loans				
Less than 30 days	64,062	9	-	64,071
30 to 90 days overdue	-	52	133	185
91-180 days overdue	-	-	45	45
Over 360 days overdue	-	-	82	82
Gross carrying amount	**64,062**	**61**	**260**	**64,383**
Credit loss allowance	(530)	(7)	(89)	(626)
Carrying amount	**63,532**	**54**	**171**	**63,757**

(in thousands of AZN, unless otherwise indicated)

The credit quality of loans to corporate customers carried at amortized cost is as follows at December 31, 2023:

	Stage 1	Stage 2	Stage 3	Total
Corporate loans				
Less than 30 days	93,950	2,788	308	97,046
30 to 90 days overdue	-	412	247	659
91-180 days overdue	-	-	527	527
181 to 360 days overdue	-	-	130	130
Over 360 days overdue	-	-	804	804
Gross carrying amount	**93,950**	**3,200**	**2,016**	**99,166**
Credit loss allowance	(973)	(229)	(757)	(1,959)
Carrying amount	**92,977**	**2,971**	**1,259**	**97,207**
General purpose consumer loans				
Less than 30 days	184,824	1,604	392	186,820
30 to 90 days overdue	-	1,021	85	1,106
91-180 days overdue	-	-	834	834
181 to 360 days overdue	-	-	1,335	1,335
Over 360 days overdue	-	-	562	562
Gross carrying amount	**184,824**	**2,625**	**3,208**	**190,657**
Credit loss allowance	(1,144)	(246)	(2,211)	(3,601)
Carrying amount	**183,680**	**2,379**	**997**	**187,056**
Mortgage loans				
Less than 30 days	100,865	270	-	101,135
30 to 90 days overdue	-	491	-	491
91-180 days overdue	-	-	298	298
Gross carrying amount	**100,865**	**761**	**298**	**101,924**
Credit loss allowance	(75)	(19)	(131)	(225)
Carrying amount	**100,790**	**742**	**167**	**101,699**
Micro-business loans				
Less than 30 days	26,784	32	70	26,886
30 to 90 days overdue	-	288	12	300
91-180 days overdue	-	-	72	72
181 to 360 days overdue	-	-	10	10
Over 360 days overdue	-	-	312	312
Gross carrying amount	**26,784**	**320**	**476**	**27,580**
Credit loss allowance	(368)	(34)	(164)	(566)
Carrying amount	**26,416**	**286**	**312**	**27,014**

(in thousands of AZN, unless otherwise indicated)

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

	2024		2023	
	Amount	**%**	**Amount**	**%**
Individuals	330,556	66.17	295,266	71.5
Trade and services	129,107	25.84	97,992	23.73
Manufacturing	18,026	3.61	10,715	2.59
Agriculture and food processing	14,543	2.91	1,430	0.35
Real estate	4,817	0.96	4,494	1.09
Energy	1,149	0.28	1,672	0.40
Construction	1,392	0.23	1,407	0.34
Total loans and advances to customers carried at AC	**499,591**	**100**	**412,976**	**100**

As at December 31, 2024 and 2023 the Bank had no single borrowers with outstanding loan balance above 10% of total capital (Note 30).

In accordance with the Central Bank of the Republic of Azerbaijan requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the expected credit losses.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

Description of collateral held for loans carried at amortized cost is as follows at December 31, 2024:

	Corporate loans	**General purpose consumer loans**	**Mortgage loans**	**Micro-business loans**	**Total**
Residential real estate	88,654	947	108,610	32,448	230,659
Cash deposits	423	4,035	-	90	4,548
Other assets	7,055	24,851	-	3,557	35,463
Total	**96,132**	**29,833**	**108,610**	**36,095**	**270,670**
Unsecured exposures*	14,276	186,983	-	27,662	228,921
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**110,408**	**216,816**	**108,610**	**63,757**	**499,591**

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(in thousands of AZN, unless otherwise indicated)

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

	Corporate loans	General purpose consumer loans	Mortgage loans	Micro-business loans	Total
Residential real estate	75,548	473	101,649	23,730	**201,278**
Cash deposits	1,316	3,863	50	195	**5,424**
Other assets	9,032	15,769	-	1,158	**25,959**
Total	**85,896**	**20,105**	**101,699**	**25,083**	**232,783**
Unsecured exposures*	11,311	166,951	-	1,931	**180,193**
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**97,207**	**187,056**	**101,699**	**27,014**	**412,976**

* Collateralized loans by third parties guarantees are included in unsecured exposures.

Other assets mainly include car, equipment and precious metal. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortized cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralized assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralized assets”).

The effect of collateral at December 31, 2024 is presented for all loans in Stage 3, whether impaired or not, as follows:

	Over-collateralized assets		Under-collateralized assets	
	Carrying value of the assets	**Value of collateral**	**Carrying value of the assets**	**Value of collateral**
Loans to corporate customers carried at AC				
Corporate loans	1,585	9,245	474	214
Loans to individuals carried at AC				
General purpose consumer loans	21	242	515	9
Mortgage loans	337	741	-	-
Micro-business loans	163	568	9	-
Total	**2,106**	**10,796**	**998**	**223**

(in thousands of AZN, unless otherwise indicated)

The effect of collateral at December 31, 2023 is presented for all loans in Stage 3, whether impaired or not, as follows:

	Over-collateralized assets		Under-collateralized assets	
	Carrying value of the assets	**Value of collateral**	**Carrying value of the assets**	**Value of collateral**
Loans to corporate customers carried at AC				
Corporate loans	1,153	7,977	106	55
Loans to individuals carried at AC				
General purpose consumer loans	54	479	943	9
Mortgage loans	167	492	-	-
Micro-business loans	242	1,232	70	57
Total	**1,616**	**10,180**	**1,119**	**121**

9. INVESTMENT IN DEBT SECURITIES

	December 31, 2024	December 31, 2023
Debt securities measured at amortised cost	29,313	53,202
Total investments in debt securities	**29,313**	**53,202**

The table below discloses investments in debt securities measured at amortised cost at December 31, 2024 and 2023 by classes:

	December 31, 2024	December 31, 2023
US Treasury bonds	3,468	-
Azerbaijani government bonds	23,271	49,183
Corporate bonds	2,618	4,105
Total investments in debt securities	**29,357**	**53,288**
Credit loss allowance	(44)	(86)
Total investments in debt securities	**29,313**	**53,202**

(in thousands of AZN, unless otherwise indicated)

(a) Investments in debt securities at AC

The following table contains an analysis of debt securities at AC by credit quality based on credit risk grades Refer to Note 27 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC.

For the purpose of ECL measurement investment in debt securities balances are included in Stage 1.

The carrying amounts of debt securities at AC at December 31, 2024 and 2023 below also represent the Bank's maximum exposure to credit risk on these assets:

	December 31, 2024	December 31, 2023
US treasury bonds		
- Excellent	3,468	-
Gross carrying amount	**3,468**	**-**
Credit loss allowance	-	-
Gross carrying amount	**3,468**	**-**
Azerbaijan government bonds		
- Good	23,271	49,183
Gross carrying amount	**23,271**	**49,183**
Credit loss allowance	(38)	(59)
Carrying amount	**23,233**	**49,124**
Corporate bonds		
- Good	2,618	4,105
Gross carrying amount	**2,618**	**4,105**
Credit loss allowance	(6)	(27)
Carrying amount	**2,612**	**4,078**

At December 31, 2024 debt securities from Ministry of Finance with a carrying value of AZN 11,471 thousand have been pledged to third parties as collateral with respect to repurchase agreements (December 31, 2023: AZN 22,957 thousand).

Azerbaijani Government bonds are issued at local currency, Azerbaijani Manats, and repayment is guaranteed by Government of Azerbaijan.

(in thousands of AZN, unless otherwise indicated)

10. PROPERTY AND EQUIPMENT

The movements in property and equipment were as follows:

	Buildings	Furniture and fixtures	Computers and office equipment	Vehicles	Other fixed assets	Leasehold improvements	Total
Cost January 1, 2023	**300**	**12,888**	**8,430**	**2,030**	**539**	**6,934**	**31,121**
Additions	352	359	286	77	34	154	1,262
Disposals	-	(580)	(346)	-	(29)	-	(955)
Revaluation of vehicles	-	-	-	(8)	-	-	(8)
December 31, 2023	**652**	**12,667**	**8,370**	**2,099**	**544**	**7,088**	**31,420**
Additions	-	320	482	-	23	129	954
Disposals	-	(273)	(160)	-	-	-	(433)
December 31, 2024	**652**	**12,714**	**8,692**	**2,099**	**567**	**7,217**	**31,941**
Accumulated Depreciation							
January 1, 2023	**(5)**	**(10,889)**	**(6,891)**	**(463)**	**(500)**	**(5,950)**	**(24,698)**
Depreciation charge	(7)	(458)	(561)	(343)	(20)	(258)	**(1,647)**
Disposals	-	260	346	-	29	-	**635**
Revaluation of vehicles – depreciation offset	-	-	-	342	-	-	**342**
December 31, 2023	**(12)**	**(11,087)**	**(7,106)**	**(464)**	**(491)**	**(6,208)**	**(25,368)**
Depreciation charge	(12)	(456)	(443)	(356)	(19)	(257)	(1,543)
Disposals	-	-	159	-	-	-	159
December 31, 2024	**(24)**	**(11,543)**	**(7,390)**	**(820)**	**(510)**	**(6,465)**	**(26,752)**
Net book value December 31, 2023	**640**	**1,580**	**1,264**	**1,636**	**53**	**880**	**6,052**
Net book value December 31, 20234	**628**	**1,171**	**1,302**	**1,279**	**57**	**752**	**5,189**

As at December 31, 2024, property and equipment amounting to AZN 22,865 thousand (2023: AZN 21,549 thousand) were fully depreciated.

(in thousands of AZN, unless otherwise indicated)

Revaluation of vehicles

From December 13, 2013, the Bank has changed its accounting policy for measurement of vehicles to the revaluation model. The last revaluation was performed in April 2024, aiming to revalue vehicles as of the year-end on December 31, 2023. As a result, there have been changes to the net book values reported as of December 31, 2023. Consequently, the Bank made adjustments to the revaluation surplus in the amount of AZN 334 thousand. As of December 31, 2023, there are no indications of impairment.

If vehicles were measured using the cost model, the carrying amounts would be as follows:

	December 31, 2024	December 31, 2023
Cost	2,370	2,370
Accumulated depreciation	(1,546)	(1,328)
Net carrying amount	**824**	**1,042**

Fair value of the vehicles was determined by using market comparable method. This means that valuations performed by the valuator are based on market transaction prices, adjusted for difference in the nature, location or condition of the specific property. The valuation process for vehicles required certain assumptions to be made. The assumptions in the valuation process were included considerations such as the estimated remaining useful life of the vehicles, potential obsolescence factors, and any known impairments. These assumptions were based on reliable and relevant information, historic data, and expert judgment.

11. INTANGIBLE ASSETS

The movements in intangible assets were as follows:

	Licenses	Computer software	Total
Cost			
January 1, 2023	**3,839**	**4,439**	**8,278**
Additions	-	8	8
December 31, 2023	**3,839**	**4,447**	**8,286**
Additions	-	12	12
December 31, 2024	**3,839**	**4,459**	**8,298**
Accumulated amortization			
January 1, 2023	**(2,557)**	**(3,557)**	**(6,134)**
Amortization charge	(148)	(367)	(515)
Disposals	-	-	-
December 31, 2023	**(2,705)**	**(3,944)**	**(6,649)**
Amortization charge	(120)	(267)	(387)
December 31, 2024	**(2,825)**	**(4,211)**	**(7,036)**
Net book value			
December 31, 2023	**1,134**	**503**	**1,637**
December 31, 2024	**1,014**	**248**	**1,262**

As at December 31, 2024, intangible assets amounting to AZN 3,485 thousand (2023: AZN 2,987 thousand) were fully amortized.

(in thousands of AZN, unless otherwise indicated)

12. RIGHT OF USE ASSETS AND LEASE LIABILITIES

	December 31, 2024	December 31, 2023
Lease liabilities (current)	2,644	1,314
Lease liabilities (non-current)	3,264	4,008
Total lease liabilities	**5,908**	**5,322**

The Bank leases office premises and a warehouse. Rental contracts are typically made for fixed periods of 1 to 7 years.

Future minimum lease payments as at December 31, 2024 were as follows:

	Minimum lease payments Within one year	One to seven years	Total
Lease payments	2,914	4,180	**7,094**
Finance charges	(270)	(916)	**(1,186)**
Net present value as at December 31, 2024	**2,644**	**3,264**	**5,908**

Future minimum lease payments as at December 31, 2023 were as follows:

	Minimum lease payments Within one year	One to seven years	Total
Lease payments	1,546	4,814	**6,360**
Finance charges	(232)	(806)	**(1,038)**
Net present value as at December 31, 2023	**1,314**	**4,008**	**5,322**

The right of use assets by class of underlying items is analysed as follows:

	Office premises	Warehouse	Total
Carrying amount at 1 January 2023	**6,446**	**625**	**7,071**
Additions	1,024	-	1,024
Disposals	(1,162)	-	(1,162)
Depreciation charge	(1,393)	(142)	(1,535)
Modification	1,105	-	1,105
Remeasurement	35	-	35
Carrying amount at 31 December 2023	**6,055**	**483**	**6,538**
Additions	1,611	-	1,611
Depreciation charge	(1,648)	(142)	(1,790)
Remeasurement	250	-	250
Carrying amount at 31 December 2024	**6,268**	**341**	**6,609**

(in thousands of AZN, unless otherwise indicated)

Interest expense on lease liabilities was AZN 581 thousand (December 31, 2023: AZN 528 thousand).

Expenses relating to short-term leases and to leases of low-value assets that are not shown as short-term leases are included in general and administrative expenses:

	2024	2023
Expense relating to leases of low-value assets that are not shown above as short-term leases	667	713
Expense relating to short-term leases	405	204
	1,072	**917**

Total cash outflow for leases in 2024 was AZN 1,856 thousand (2023: AZN 2,903 thousand).

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

A reconciliation of the opening and closing amounts of lease liabilities with relevant cash and non-cash changes from financing activities is stated below:

	December 31, 2024	December 31, 2023
Balance at January 1	**5,322**	**6,626**
Changes from financing cash flows		
Payments	(1,856)	(2,903)
Other changes		
Interest expense	581	528
New leases	1,611	1,024
Modification	-	1,105
Remeasurement	250	35
Derecognition	-	(1,093)
Balance at December 31	**5,908**	**5,322**

Extension options. Some leases of office premises and branches contain extension options exercisable by the Bank up to one year before the end of non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

(in thousands of AZN, unless otherwise indicated)

13. OTHER IMPAIRMENT AND PROVISIONS

The movements in other impairment allowances and provisions were as follows:

	Guarantees issued	Undrawn loan commitments	Property and equipment	Total
January 1, 2023	**(46)**	**(62)**	**-**	**(108)**
Reversal/(charge)	(60)	31	(5)	(34)
Write-offs	-	-	-	-
December 31, 2023	**(106)**	**(31)**	**(5)**	**(142)**
Reversal/(charge)	32	(128)	-	(96)
Write-offs	-	-	5	5
December 31, 2024	**(74)**	**(159)**	**-**	**(233)**

Provisions for guarantees and undrawn loan commitments are recorded in other liabilities (Note 14). For the breakdown of total credit related commitments and credit quality disclosure refer to Note 21.

14. OTHER ASSETS AND LIABILITIES

Other assets comprise:

	December 31, 2024	December 31, 2023
Other financial assets		
Settlements with foreign financial intermediary	3,232	2,390
Settlements on money transfers	3,845	1,992
Accrued commission receivable	35	73
	7,112	**4,455**
Other non-financial assets		
Prepayments for services and others	1,172	1,305
Taxes other than income tax	60	-
Prepayments for purchase of property and equipment	1,047	271
Others	32	145
	2,311	**1,721**
Other assets	**9,423**	**6,176**

(in thousands of AZN, unless otherwise indicated)

Other liabilities comprise:

	December 31, 2024	December 31, 2023
Other financial liabilities		
Dividends payable	-	5,462
Payments in the course of settlements	4,483	4,230
Accrued expenses	3,979	4,035
	8,462	**13,727**
Other non-financial liabilities		
Other taxes payable	702	1,170
Provision for guarantees issued and credit related commitments	233	137
	935	**1,307**
Other liabilities	**9,397**	**15,034**

15. AMOUNTS DUE TO CUSTOMERS

The amounts due to customers include the following:

	December 31, 2024	December 31, 2023
Time deposits	192,082	127,529
Current accounts	104,695	128,409
Amounts due to customers	**296,777**	**255,938**

As of 31 December 2024, time deposits were due to customers with annual interest rates of 0.01-12% (2023: 0.01-10%) and maturing through 2027 (2023: maturing through 2026).

As at December 31, 2024, amounts due to customers of AZN 55,826 thousand or 15% (December 31, 2023: AZN 58,055 thousand or 23%) of total amounts due to customers were due to 10 largest customers.

Included in due to customer accounts in the amount of AZN 13,124 thousand and AZN 8,099 thousand as at December 31, 2024 and 2023, respectively are deposits blocked as collateral for loans issued.

Included in due to customer accounts in the amount of AZN 5,078 thousand and AZN 2,866 thousand as at December 31, 2024 and 2023, respectively is accrued interest payable.

Amounts due to customers include accounts with the following types of customers:

	December 31, 2024	December 31, 2023
Individuals	204,983	154,108
Private enterprises	50,517	67,662
State and budgetary organizations	31,948	24,331
Individual entrepreneurs	9,329	9,837
Amounts due to customers	**296,777**	**255,938**

(in thousands of AZN, unless otherwise indicated)

Economic sector concentrations within customer accounts are as follows:

	December 31, 2024	December 31, 2023
Individuals	204,983	154,108
Trade and Services	32,824	48,765
State organisations	30,500	23,507
Individual entrepreneurs	9,329	9,837
Industrial and manufacturing	6,050	8,312
Transportation and Communication	5,853	4,800
Insurance	1,944	1,367
Construction	1,103	2,423
Agriculture	1,047	515
Energy	781	505
Others	2,363	1,799
Amounts due to customers	**296,777**	**255,938**

16. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	December 31, 2024	December 31, 2023
Time deposits	23,013	8,506
Current accounts	1,607	719
Amounts due to credit institutions	**24,620**	**9,225**

As at December 31, 2024 time deposits of due to credit institutions included several placements by one resident bank, bearing interest rates of 9.75% - 10.75 % per annum with maturities to June 2025 (December 31, 2023: placement in 1 bank, bearing interest rate 8.75% per annum with maturity to May 2024).

As at December 31, 2024, accrued interest expenses are AZN 13 thousand in amounts due to banks and other financial institutions (December 31, 2023: AZN 65 thousand).

17. REPURCHASE AGREEMENTS WITH FINANCIAL INSTITUTIONS

Repurchase agreements with financial institutions comprise:

	December 31, 2024	December 31, 2023
Repurchase agreements with financial institutions	11,695	23,380
Repurchase agreements with financial institutions	**11,695**	**23,380**

As at 31 December 2024, the Bank has entered into repurchase agreements at interest rate between 6.25% - 6.9% at Baku Stock Exchange (31 December 2023: at interest rate between 6.50% - 7%). As at 31 December 2024, amount payable under repurchase agreements was AZN 11,695 thousand (31 December 2023: AZN 23,380 thousand), which were repaid in January 2025 (31 December 2023: January 2024).

(in thousands of AZN, unless otherwise indicated)

The Bank pledged investments in debt securities as collateral that it was not allowed to sell or repledge. Refer to Note 9.

As at 31 December 2024, the fair value of financial assets pledged for repurchase agreements was AZN 11,656 thousand (31 December 2023: AZN 22,903 thousand).

18. OTHER BORROWED FUNDS

	December 31, 2024	December 31, 2023
Other borrowed funds at AC		
Borrowings from Azerbaijan Mortgage and Credit Guarantee Fund	107,200	100,671
Borrowings from Entrepreneurship Development Fund of the Republic of Azerbaijan	27,627	19,318
Borrowings from Agency for Agro Credit and Development	1,851	2,870
Term borrowings from Central Bank of the Republic of Azerbaijan	-	837
Total other borrowed funds	**136,678**	**123,696**

As at December 31, 2024 the Bank had loans borrowed from Azerbaijan Mortgage and Credit Guarantee Fund Entrepreneurship Development Fund of the Republic of Azerbaijan and Agency for Agro Credit and Development under the Ministry of Agriculture amounting to AZN 107,200 thousand (December 31, 2023: AZN 100,671 thousand), AZN 27,627 thousand (December 31, 2023: AZN 19,318 thousand), AZN 1,851 thousand (December 31, 2023: 2,870) maturing through August 2053, December 2028, November 2028 (December 31, 2023: April 2052, July 2024, January 2028) and bearing annual interest rates of 1-4%, 1-2%, 2-3.6% (December 31, 2022: 1-4%, 1-2%, 2-3.6%) respectively.

Term borrowings from Central Bank of the Republic of Azerbaijan with interest rate 0.1% matured in November 2024.

As at December 31, 2023 included in balances from Azerbaijan Mortgage and Credit Guarantee Fund are borrowings obtained in relation of acquired mortgage portfolios from Gunaybank OJSC and Muganbank OJSC totalling AZN 53,494 thousand.

The Bank management believes that there are no other financial instruments similar to term borrowings from Azerbaijan Mortgage and Credit Guarantee Fund, Entrepreneurship Development Fund of the Republic of Azerbaijan and Agency for Agro Credit and Development under the Ministry of Agriculture and considers this market as a separate market.

As at December 31, 2024, accrued interest payable included in term borrowings amounted to AZN 320 thousand (December 31, 2023: AZN 300 thousand).

	2024	2023
January 1	**123,696**	**52,481**
Cash flows		
Proceeds	32,843	83,161
Repayment	(20,221)	(11,981)
Interest paid	(3,136)	(2,411)
Non-cash changes		
Interest expense	3,496	2,446
December 31	**136,678**	**123,696**

(in thousands of AZN, unless otherwise indicated)

19. TAXATION

The corporate income tax expense comprises:

	December 31, 2024	December 31, 2023
Current income tax charge	(3,094)	(4,030)
Deferred income tax credit		
− origination and reversal of temporary differences	274	(21)
Less: deferred tax recognised in other comprehensive income	-	67
Income tax expense	**(2,820)**	**(3,984)**

Azerbaijan legal entities have to file individual corporate income tax declarations. Standard corporate tax rate is 20% for 2024 and 2023.

Reconciliation of effective tax rate for the years ended December 31 2024:

	2024	%	2023	%
Profit before income tax	13,780	-	17,750	-
Income tax at the applicable tax rate	(2,756)	20	(3,550)	20
Non-deductible expenses	(64)	-	(434)	2
Total income tax expense	**(2,820)**	**20**	**(3,984)**	**22**

Deferred tax assets and liabilities and their movements for the respective years comprise:

	January 1, 2024	Charged to profit or loss	Charged to other comprehensive income	December 31, 2024
Tax effect of deductible/(taxable) temporary differences				
Lease liabilities	1,065	116	-	1,181
Property and equipment	2,557	(204)	-	2,353
Loans and advances to customers	(351)	(152)	-	(503)
Foreclosed property	(252)	-	-	(252)
Intangible assets	279	-	-	279
Investment securities	39	(8)	-	31
Cash and cash equivalents	250	-	-	250
Other assets	537	85	-	622
Other liabilities	(449)	79	-	(370)
Right-of-use assets	(1,680)	358	-	(1,322)
Net deferred income tax asset	**1,995**	**274**	**-**	**2,269**

(in thousands of AZN, unless otherwise indicated)

	January 1, 2023	Charged to profit or loss	Charged to other comprehensive income	December 31, 2023
Tax effect of deductible/(taxable) temporary differences				
Lease liabilities	1,396	(331)	-	1,065
Property and equipment	2,599	25	(67)	2,557
Loans and advances to customers	(451)	100	-	(351)
Foreclosed property	(252)	-		(252)
Intangible assets	279	-	-	279
Investment securities	28	11	-	39
Cash and cash equivalents	250	-	-	250
Other assets	653	(116)	-	537
Other liabilities	(498)	49	-	(449)
Right-of-use assets	(1,987)	307	-	(1,680)
Net deferred income tax asset	**2,017**	**45**	**(67)**	**1,995**

20. SHARE CAPITAL

	Number of outstanding shares	Ordinary shares	Total
At January 1, 2023	**305,256**	**112,545**	**112,545**
At December 31, 2023	**305,256**	**112,545**	**112,545**
At 31 December 2024	**305,256**	**112,545**	**112,545**

As at December 31, 2024, the number of issued and fully paid ordinary shares is 305,256 (December 31, 2023: 305,256).

The share capital of the Bank was contributed by the shareholders in AZN, and they are entitled to dividends and any capital distribution in AZN.

During the year ended December 31, 2024, the Bank declared dividends in the amount of AZN 3,202 thousand (December 31, 2023: AZN 12,409 thousand) and made payments to shareholders in the amount of AZN 8,664 thousand (December 31, 2023: AZN 12,722 thousand).

Revaluation reserve

The revaluation reserve is used to record increases in the fair value of vehicles and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

(in thousands of AZN, unless otherwise indicated)

21. COMMITMENTS AND CONTINGENCIES

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

Taxation. The taxation system in Azerbaijan is prone to frequent changes in legislation. Official interpretations and rulings of the ambiguous tax law provisions are not made public and are often unclear, contradictory and open to various interpretations. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

Compliance with the Central Bank of the Republic of Azerbaijan ratios

The CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. Management believes that the Bank was in compliance with these ratios as at December 31, 2024 and 2023 (Note 30).

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments if a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

	December 31, 2024	**December 31, 2023**
Credit related commitments		
Guarantees issued	9,152	11,912
Undrawn loan commitments	18,002	10,929
Total	**27,154**	**22,841**
Less: provisions for credit related commitments (Note 14)	(233)	(135)
Total credit related commitments, net of provision	**26,921**	**22,706**

As at December 31, 2024 and 2023 all credit related commitments is at Stage 1.

(in thousands of AZN, unless otherwise indicated)

22. INTEREST INCOME AND EXPENSE

Interest income and expense comprises:

	Year ended December 31, 2024	Year ended December 31, 2023
Interest income calculated using the effective interest method		
Loans and advances to customers	64,216	53,312
Investment securities at AC	2,411	4,396
Cash and cash equivalents	603	1,746
Amounts due from credit institutions	285	68
Total interest income	**67,516**	**59,522**
Interest expense		
Amounts due to customers	(14,121)	(10,521)
Other borrowed funds	(3,496)	(2,446)
Amounts due to credit institutions	(1,422)	(838)
Repurchase agreements with financial institutions	(816)	(1,872)
Total interest expense	**(19,855)**	**(15,677)**
Interest expense on lease liabilities		
Lease expense	(581)	(528)
Total interest and lease expense	**(20,436)**	**(16,205)**
Net margin on interest income	**47,080**	**43,317**

23. NET FEE AND COMMISSION INCOME

Net fee and commission income comprises:

	Year ended December 31,2024	Year ended December 31, 2023
Fee and commission income		
Plastic card operations	7,670	7,384
Settlement operations	4,039	3,458
Cash operations	3,184	1,172
Others	469	505
Total fee and commission income	**15,362**	**12,519**
Fee and commission expense		
Plastic card operations	(9,393)	(7,862)
Settlement operations	(1,107)	(822)
Others	(152)	(205)
Total fee and commission expense	**(10,652)**	**(8,889)**
Net fee and commission income	**4,710**	**3,630**

(in thousands of AZN, unless otherwise indicated)

24 PERSONNEL, GENERAL AND ADMINISTRATIVE EXPENSES

Personnel expenses comprise:

	Year ended December 31,2024	**Year ended December 31, 2023**
Salaries and bonuses	(19,723)	(16,733)
Social security costs	(3,502)	(3,147)
Personnel expenses	**(23,225)**	**(19,880)**

General and administrative expenses comprise:

	Year ended December 31, 2024	**Year ended December 31, 2023**
Depreciation and Amortisation	(3,720)	(3,697)
Computer software costs	(2,078)	(1,712)
Deposit insurance fee	(1,336)	(1,249)
Marketing and advertising expenses	(1,805)	(944)
Occupancy and rent expenses	(1,072)	(917)
Security expenses	(967)	(892)
Repair and maintenance	(665)	(734)
Communication expenses	(641)	(570)
Legal and consultancy expenses	(455)	(556)
Printing and office supplies expenses	(496)	(510)
Utility expenses	(190)	(213)
Business travel and related expenses	(197)	(119)
Vehicle running costs	(154)	(165)
Operating tax expenses	(152)	(152)
Auction expenses	-	(82)
Membership fee expenses	(28)	(42)
Other expenses	(764)	(764)
General and administrative expenses	**(14,720)**	**(13,318)**

For the year ended December 31, 2024, AZN 235 thousand (2023: AZN 254 thousand) audit fee is included in legal and consultancy expenses.

(in thousands of AZN, unless otherwise indicated)

25. EARNINGS PER SHARE

Basic earnings/ per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Earnings/ per share are calculated as follows:

	Year ended December 31, 2024	Year ended December 31, 2023
Net profit for the year attributable to ordinary shareholders	10,862	14,033
Weighted average number of ordinary shares in issue (thousands)	305	305
Basic and diluted earnings per ordinary share (expressed in AZN per share)	**36**	**46**

26. SEGMENT ANALYSIS

The segment information allows users of its financial statements to evaluate the nature and financial effects of the business activities in which an entity engages and the economic environments in which it operates. The Bank prepares its segment information in accordance with the "management approach", which requires presentation of the segments on the basis of the internal reports about components of the entity which are regularly reviewed by the chief operating decision maker. It follows the organizational structure, which are the basis for assessing the financial performance of the business segments and for allocating resources to the business segments. This matter is regulated by IFRS 8 Operating Segments and other standards that require special disclosures in the form of segmental reporting.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. For managerial purposes, the Bank is organized into three operating segments:

- Corporate banking – direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Retail banking – individual banking services, customer current accounts, savings, deposits, investment savings, credit and debit cards, consumer loans and mortgages.
- Treasury – interbank lending and borrowings, securities trading, foreign exchange services and other treasury functions.

No operating segments have been aggregated to form the above reportable operating segments. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are also managed on a segment basis and are allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

(in thousands of AZN, unless otherwise indicated)

The following table presents income and profit information regarding the operating segments of the Bank for the year ended December 31, 2024:

	Notes	Retail banking	Corporate banking	Treasury	Unallocated	Total
Interest income	22	55,548	8,669	3,299	-	67,516
Interest expense	22	(13,890)	(231)	(5,734)	-	(19,855)
Interest expense on lease liabilities	22	(508)	(103)	30	-	(581
Net interest income		**41,150**	**8,335**	**(2,405)**	**-**	**47,080**
Credit loss (charge)/recovery	8	(6,152)	31	42	-	(6,079)
Net interest income after credit loss (charge)/recovery		**34,998**	**8,366**	**(2,363)**	**-**	**41,001**
Fee and commission income	23	10,854	4,508	-	-	15,362
Gains less losses from trading in foreign currencies		3,494	545	208	-	4,247
Net gains from currency translation differences		-	-	(65)	-	(65)
Other income		884	-	1,044	-	1,928
Non-interest income		**15,232**	**5,053**	**1,187**	**-**	**21,472**
Fee and commission expense	23	(9,393)	(1,107)	(152)	-	(10,652)
Personnel, general and administrative expenses	24	(16,563)	(13,142)	(1,429)	(6,811)	(37,945)
Other impairment and provisions	13	(77)	(21)	2	-	(96)
Non-interest expenses		**(26,033)**	**(14,270)**	**(1,579)**	**(6,811)**	**(48,693)**
Profit/(loss) before tax		**24,197**	**(851)**	**(2,755)**	**(6,811)**	**13,780**
Income tax (expense)/benefit	19	(4,952)	174	564	1,394	(2,820)
NET PROFIT/(LOSS) FOR THE YEAR		**19,245**	**(677)**	**(2,191)**	**(5,417)**	**10,960**
Total Assets		506,204	83,319	30,246	2,787	622,556
Total Liabilities		399,090	62,283	23,702	-	485,075

(in thousands of AZN, unless otherwise indicated)

The following table presents income and profit information regarding the operating segments of the Bank for the year ended December 31, 2023:

	Notes	Retail banking	Corporate banking	Treasury	Unallocated	Total
Interest income	22	46,562	6,750	6,210	-	59,522
Interest expense	22	(9,612)	(909)	(5,156)	-	(15,677)
Interest expense on lease liabilities	22	(445)	(70)	(13)	-	(528)
Net interest income		**36,505**	**5,771**	**1,041**	**-**	**43,317**
Credit loss (charge)/recovery	8	(3,017)	3,001	(11)	-	(27)
Net interest income after credit loss recovery/(charge)		**33,488**	**8,772**	**1,030**	**-**	**43,290**
Fee and commission income	23	8,556	3,963	-	-	12,519
Gains less losses from trading in foreign currencies		3,559	515	475	-	4,549
Net gains from currency translation differences		-	-	(98)	-	(98)
Other expenses		-	-	(389)	-	(389)
Non-interest income		**12,115**	**4,478**	**(12)**	**-**	**16,581**
Fee and commission expense	23	(7,862)	(822)	(205)	-	(8,889)
Personnel, general and administrative expenses	24	(14,491)	(11,498)	(1,250)	(5,959)	(33,198)
Other impairment and provisions	13	(25)	(8)	(1)	-	(34)
Non-interest expenses		**(22,378)**	**(12,328)**	**(1,456)**	**(5,959)**	**(42,121)**
Profit/(loss) before tax		**23,225**	**922**	**(438)**	**(5,959)**	**17,750**
Income tax (expense)/benefit	19	(5,213)	(207)	98	1,337	(3,984)
NET PROFIT/(LOSS) FOR THE YEAR		**18,012**	**715**	**(340)**	**(4,621)**	**13,766**
Total Assets		434,823	67,762	57,649	2,997	563,231
Total Liabilities		339,118	49,161	45,228	-	433,508

27. RISK MANAGEMENT

Introduction

Risk is inherent in the Bank's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's sustainability and profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit, liquidity, 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 Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

The Assets and Liabilities Management Committee ("ALMC")

The ALMC is responsible for the development and implementation of strategy and tools related to all aspects of financial management of the Bank.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Board of Directors.

Risk measurement and reporting systems. The Bank’s risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities. Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. On a regular basis detailed reporting of industry and customer risks takes place.

Excessive risk concentration. Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank’s performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The Bank actively uses collateral to reduce its credit risks.

Credit-related commitments risks. The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies. The maximum exposure to credit risk for the components of the statement of financial position is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

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 Bank: Probability of Default (“PD”), Exposure at Default (“EAD”), Loss Given Default (“LGD”) and Discount Rate.

The ECL measurement for guarantees and loan commitments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is the amount of the commitment ("E") in case of Stage 1 deals (sum of on- and off-balance exposures), and on-balance exposures as all commitment products are revocable within 30 days.

Default definition and Stage 3 criteria. The Bank defines default and Stage 3 exposures as a situation when the exposure meets one or more of the following criteria:

- The loan was 90+ days overdue at any point within the considered time horizon;
- The loan was restructured less than 6 months prior to the considered date and became 31-90 days overdue;
- Any other relevant management information on default situation deterioration on the customer.

The Bank defines a bank in default and Stage 3 exposures as a situation when the exposures meets one or more of the following criteria:

- Any days past due;
- Any other relevant information available on borrower bankruptcy or default.

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.

The Bank has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio; and (iii) assessment based on external ratings.

The level of ECL that is recognized in these 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). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognize interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed.

Leaving default status depends on curing period of 3 months from the moment when default triggers were removed. This logic has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures.

Staging. The level of ECL that is recognized in these financial statements depends on which stage was assigned to exposure from a three-stage model. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not deteriorated significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a Stage 2 since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognize interest income based on gross carrying value and applies the asset's nominal interest rate to the carrying amount, net of ECL, when calculating interest income.

Significant increase in credit risk. The assessment whether or not there has been a significant deterioration in credit risk (Stage 2) since initial recognition is performed on whole portfolio. The criteria used to identify Stage 2 are monitored and reviewed periodically for appropriateness by the Bank's Risk Management Department. The presumption, being that there has been significant deterioration in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Bank considers a financial instrument to have experienced a Stage 2 when one or more of the following quantitative, qualitative or backstop criteria have been met:

For loans issued:

- 31-90 days overdue;
- Restructured loan;
- Debt to income ratio;
- Any other relevant management information on financial situation deterioration on the customer.

For interbank operations and bonds issued by the banks:

- Deteriorating change in external rating;
- Monitoring suggests borrower has financial difficulties.

If there is evidence that the Stage 2 criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to apply, or it is no longer valid.

Probability of default (PD). PD is an estimate of the likelihood of default to occur over a given time period. Estimated lifetime PD curve for every exposure is dependent on time, credit risk rating and segment. 12-month PD is calculated as part of lifetime PD curve. Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Bank uses different statistical approaches depending on the segment and product type to calculated lifetime PDs and these are described below:

PDs for each segment of the bank loan book (corporate loans, retail loans and mortgages), also separately for loans in Stage 1 and Stage 2, were calculated on the basis of a migration matrixes analysis. As through-the-cycle (TTC) Default Rates manifest themselves over long enough period of time, the TTC PD were determined based on the historical data of loans with a curve-fitting approach divided to separate Days-past-due (DPD) buckets. Such long-term default curves were constructed with an observation window of one year, using data from 1 December 2015 to 1 January 2025. To calculate PDs, a Weibull distribution curve was fitted to every DPD bucket's observed default rates.

(in thousands of AZN, unless otherwise indicated)

Point-in-time PD (PiT PD) were determined by forecasting PD based on ARIMAX model which used historical default rates starting from 01 December 2015 to 01 January 2024 as dependent variable.

A set of ARIMAX models of historical default rates on macroeconomic variables (with different lags) were. Among the built models, the most suitable ones were selected, and the forecast based on them for the next 12 months was incorporated into PiT PD. Marginal PDs for 2nd and 3rd years were taken from Cumulative TTC PD estimates for 2 and 3 year periods.

External ratings. External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody’s and Fitch. These ratings are publicly available. Such ratings and the corresponding range of PD are applied for the following financial instruments amounts due from the CBAR, balances on correspondent accounts including overnight deposits and term deposits, investment in debt securities.

Master scale credit risk grade	Corresponding ratings of external international rating agencies (Moody’s)	Corresponding PD interval
Excellent	Aaa to Baa3	0,01% - 0,5%
Good	Ba1 to Ba3	0,51% - 1,88%
Satisfactory	B1, B3	1,88% - 6,93%
Special monitoring	Caa1+ to Ca	6,93% - 99,9%
Default	C	100%

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

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

Loss given default (LGD). LGD is an estimate of the loss arising on default.

The Bank use 2 approaches to LGD calculation based on the availability of information and customer segment:

In LGD calculation for retail loans and corporate loans without information on their collateral the bank use available information on historical recoveries from defaulted loans over 10 years period and performs roll rates vintage analysis. At the level of each defaulted loan its recoveries are discounted back to its default date at Effective Interest Rate of the defaulted loan. The recovery rates at each loan level are averaged across all defaulted loans to arrive at average recovery rates by months in default, hence LGD depending on how long a loan is in default status.

LGD for mortgage loans and secured corporate loans are calculated based on collateral value related to EAD of the loan. The value of the collateral is reduced (“haircut”) to reflect its value’s potential loss due to limited liquidity of the collateral. This LGD is taken into account deal-by-deal when calculating ECL, with a minimum floor of 30%.

Exposure at default (EAD). 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.

(in thousands of AZN, unless otherwise indicated)

For revolving products EAD is the sum of the off-balance amounts to an on-balance sheet exposure in case of Stage 1 deals. As all commitments can be revoked after 30 days past due, for Stage 2-3 deals, on-balance exposure was used.

The EADs are determined based on the expected payment profile that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a “credit conversion factor” that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

Macro-economic factors. FLI adjustment is based on a ARIMAX model indicators with the Bank's default rates.
The Bank used monthly macroeconomic data since March 31, 2016, till December 31, 2024, and forecast data for 2025. Variables with the best correlation was selected and the following ones were used for modelling PiT PD*:*

The Bank used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. Only one scenario was built as there’s no reliable future alternative scenario for Azerbaijan.

The most significant forward-looking assumptions that correlate with ECL level were as follows as at December 31, 2024:

Variable	Consumer and Mortgage loans	Corporate and Micro loans
GDP	YES	YES

The most significant forward-looking assumptions that correlate with ECL level were as follows as at December 31, 2023:

Variable	Consumer and Mortgage loans	Corporate and Micro loans
NEER	-	YES
Brent price	YES	YES
Nominal salary	YES	-
Inflation growth	YES	YES

Point in time. The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates. The estimates consider supportable *forward-looking information,* that is, PD values are influenced by internal bank forecasts of key macroeconomic variables that have an impact on credit risk.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future month during appropriate time period (which depends on assigned stage) for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period that is then discounted back to the reporting date and summed up.

Forward-looking information incorporated in the ECL models. The calculation of ECLs incorporates supportable forward-looking information. The Bank identified certain key economic variables that correlate with ECLs. Forecasts of economic variables (the “base economic scenario”) are provided by the Bank and provide the best estimate of the expected macro-economic development over the next five years. The impact of the relevant economic variables on the PD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates.

As with economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank’s different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

***Backtesting*.** The Bank 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 the ECL measurement methodology are communicated to Bank Management and further steps for tuning models and assumptions are defined after discussions between authorized persons.

(in thousands of AZN, unless otherwise indicated)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities is set out below:

	December 31, 2024				*December 31, 2023*			
	Azerbaijan	*OECD*	*Other countries*	*Total*	*Azerbaijan*	*OECD*	*Other countries*	*Total*
Financial assets								
Cash and cash equivalents	59,097	3,739	1,550	**64,386**	59,654	7,462	3,165	**70,281**
Amounts due from credit institutions	-	1,990	-	**1,990**	-	1,904	-	**1,904**
Loans and advances to customers	499,591	-	-	**499,591**	412,976	-	-	**412,976**
Investments in debt securities at AC	25,845	-	3,468	**29,313**	52,360	842	-	**53,202**
Other financial assets	3,215	3,871	26	**7,112**	2,065	2,390	-	**4,455**
Total financial assets	**587,748**	**9,600**	**5,044**	**602,392**	**527,055**	**12,598**	**3,165**	**542,816**
Financial liabilities								
Amounts due to customers	296,775	-	2	**296,777**	255,936	-	2	**255,938**
Amounts due to credit institutions	24,280	-	340	**24,620**	8,630	-	595	**9,225**
Repurchase agreements with financial institutions	11,695	-	-	**11,695**	23,380	-	-	**23,380**
Other borrowed funds	136,678	-	-	**136,678**	123,696	-	-	**123,696**
Lease liabilities	5,908	-	-	**5,908**	5,322	-	-	**5,322**
Other financial liabilities	6,998	1,056	408	**8,462**	13,727	-	-	**13,727**
Total financial liabilities	**482,334**	**1,056**	**750**	**484,140**	**430,691**	**-**	**597**	**431,288**
Total net assets	**105,414**	**8,544**	**4,294**	**118,252**	**96,364**	**12,598**	**2,568**	**111,530**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. The methodology of the liquidity management tools and reports is approved by the Board of Directors of the Bank, prepared by the Finance Department and reviewed on the monthly basis by Asset Liabilities Committee.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains a cash deposit (obligatory reserve) with the CBAR, the amount of which depends on the level of customer funds attracted.

The Central Bank of the Republic of Azerbaijan has in place minimum levels of liquidity required. The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on minimum liquidity ratio of 30% established by the CBAR. As at December 31, 2024 and 2023, these ratios were as follows:

(in thousands of AZN, unless otherwise indicated)

	Requirement	*2024 (%) Unaudited*	*2023 (%) Unaudited*
Instant Liquidity Ratio	Not less than 30%	51	50
Liquidity coverage ration	Not less than 100%	109.2	144.4

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at December 31, 2024 and 2023 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

The maturity analysis of financial instruments at December 31, 2024 is as follows:

	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total gross amount outflow**	**Carrying amount**
Financial liabilities						
Amounts due to customers	144,351	101,790	65,346	-	311,487	296,777
Amounts due to credit	9,616	15,012	-	-	24,628	24,620
Repurchase agreements with	11,695	-	-	-	11,695	11,695
Other borrowed funds	2,549	8,186	40,534	154,654	205,923	136,678
Lease liabilities	1,084	1,921	4,230	-	7,235	5,908
Other financial liabilities	8,462	-	-	-	8,462	8,462
Total undiscounted financial liabilities	**177,757**	**126,909**	**110,110**	**154,654**	**569,430**	**484,140**

(in thousands of AZN, unless otherwise indicated)

The maturity analysis of financial instruments at December 31, 2023 is as follows:

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total gross amount outflow	Carrying amount
Financial liabilities						
Amounts due to customers	160,070	86,901	15,494	-	262,465	255,938
Amounts due to credit	721	8,507	-	-	9,228	9,225
Repurchase agreements with	23,380	-	-	-	23,380	23,380
Other borrowed funds	2,694	7,098	33,259	144,470	187,521	123,696
Lease liabilities	599	1,354	4,625	-	6,578	5,322
Other financial liabilities	13,727	-	-	-	13,727	13,727
Total undiscounted financial liabilities	**201,191**	**103,860**	**53,378**	**144,470**	**502,899**	**431,288**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	3 to 12 Months	1 to 5 years	Total
2024	4,112	8,258	14,551	26,921
2023	2,520	7,703	12,483	22,706

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

	December 31, 2024			December 31, 2023		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	64,386	-	**64,386**	70,281	-	**70,281**
Amounts due from credit institutions	-	1,990	**1,990**	-	1,904	**1,904**
Loans and advances to customers	189,307	312,739	**502,046**	157,411	255,565	**412,976**
Investments in debt securities at AC	11,842	17,471	**29,313**	31,168	22,034	**53,202**
Other financial assets	7,112	-	**7,112**	4,455	-	**4,455**
Total	**272,647**	**332,200**	**604,847**	**263,315**	**279,503**	**542,818**
Amounts due to customers	234,356	62,421	**296,777**	241,095	14,843	**255,938**
Amounts due to credit institutions	24,620	-	**24,620**	9,225	-	**9,225**
Repurchase agreements with financial institutions	11,695	-	**11,695**	23,380	-	**23,380**
Other borrowed funds	6,202	130,476	**136,678**	6,318	117,378	**123,696**
Lease liabilities	2,644	3,264	**5,908**	1,314	4,008	**5,322**
Other financial liabilities	8,462	-	**8,462**	13,727	-	**13,727**
Total	**287,979**	**196,161**	**484,140**	**295,059**	**136,229**	**431,288**
Net	**(15,332)**	**136,039**	**120,707**	**(31,744)**	**143,274**	**111,530**

(in thousands of AZN, unless otherwise indicated)

Management believes that in spite of a substantial portion of customer accounts matures within 1 year, diversification of these deposits by number and type of depositors and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank. Additionally, the management of the Bank is currently in the process of negotiating new maturities of the short-term customer accounts with the clients by offering favourable terms and conditions.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange. The Bank does not have any significant equity, corporate fixed income or derivatives holdings.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The ALMC on regular basis reviews the overall interest rate spreads by detailed analysis of the assets and liabilities interest rate structure. As at December 31, 2024 and 2023, the Bank does not have any financial assets and liabilities with floating interest rate.

Maturity analysis of assets and liabilities are representative of the interest repricing profile of the Bank.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

	December 31, 2024			December 31, 2023		
	Monetary financial assets	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Azerbaijani Manats	561,174	(436,581)	124,593	488,981	(387,428)	101,553
Russian Roubles	11,948	(505)	3	1,225	(1,307)	(82)
US Dollars	23,869	(42,147)	(6,859)	47,268	(37,318)	9,950
Euros	5,040	(4,644)	396	4,486	(4,449)	37
Pound Sterling	339	(263)	76	805	(781)	24
Other	22	-	22	53	(5)	48
Total	**602,392**	**(484,140)**	**118,252**	**542,818**	**(431,288)**	**111,530**

(in thousands of AZN, unless otherwise indicated)

The tables below indicate the currencies to which the Bank had significant exposure at December 31, 2024 and 2023 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AZN, with all other variables held constant on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss and other comprehensive income. A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income or equity, while a positive amount reflects a net potential increase.

Impact on profit before tax based on net assets value as at December 31, 2024 and 2023:

	2024		2023	
	AZN/USD +30%	**AZN/USD** -15%	**AZN/USD** +30%	**AZN/USD** -15%
Impact on profit before tax	(2,058)	1,029	2,985	(1,493)

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 Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks.

Controls should include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

28. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value hierarchy

The table below analyses financial instruments not measured at fair value as at December 31, 2024, by the level in the fair value hierarchy into which the recurring fair value measurement is categorized:

		Fair value measurement using			
	Date of valuation	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2024	-	64,386	-	64,386
Investments in debt securities at AC	31 December 2024	3,457	25,580	-	29,037
Amounts due from credit institutions	31 December 2024	-	1,943	-	1,943
Loans and advances to customers	31 December 2024	-	-	503,910	503,910
Other financial assets	31 December 2024	-	7,112	-	7,112
Liabilities for which fair values are disclosed					
Amounts due to customers	31 December 2024	-	293,862	-	293,862
Amounts due to credit institutions	31 December 2024	-	24,620	-	24,620
Repurchase agreements with financial institutions	31 December 2024	-	11,695	-	11,695
Other borrowed funds	31 December 2024	-	136,678	-	136,678
Other financial liabilities	31 December 2024	-	8,462	-	8,462

(in thousands of AZN, unless otherwise indicated)

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

		Fair value measurement using			
	Date of valuation	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2023	-	70,279	-	70,279
Investments in debt securities at AC	31 December 2023	-	53,112	-	53,112
Amounts due from credit institutions	31 December 2023	-	1,958	-	1,958
Loans and advances to customers	31 December 2023	-	-	415,569	415,569
Other financial assets	31 December 2023	-	4,455	-	4,455
Liabilities for which fair values are disclosed					
Amounts due to customers	31 December 2023	-	-	256,140	256,140
Amounts due to credit institutions	31 December 2023	-	9,225	-	9,225
Repurchase agreements with financial institutions	31 December 2023	-	23,380	-	23,380
Other borrowed funds	31 December 2023	-	123,668	-	123,668
Other financial liabilities	31 December 2023	-	13,727	-	13,727

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank’s financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2024	**Fair value 2024**	**Carrying value 2023**	**Fair value 2023**
Financial assets				
Cash and cash equivalents	64,386	64,386	70,281	70,279
Investments in debt securities at AC	29,313	29,037	53,202	53,112
Amounts due from credit institutions	1,990	1,943	1,904	1,958
Loans and advances to customers	499,591	503,910	412,976	415,569
Other financial assets	7,112	7,112	4,455	4,455
Financial liabilities				
Amounts due to customers	296,777	293,862	255,938	256,140
Amounts due to credit institutions	24,620	24,620	9,225	9,225
Repurchase agreements with financial institutions	11,695	11,695	23,380	23,380
Other borrowed funds	136,678	136,678	123,696	123,668
Other financial liabilities	8,462	8,462	13,727	13,727

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

Fair value of unquoted instruments, loans and advances to customers, amounts due from credit institutions, amounts due to customers and credit institutions, other borrowed funds, other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

29. RELATED PARTY DISCLOSURES

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or 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 effected on the same terms, conditions and amounts as transactions between unrelated parties.

(in thousands of AZN, unless otherwise indicated)

The outstanding balances of related party transactions are as follows:

	2024					*2023*				
	Shareholders	**Entities under common control**	**Key management personnel**	**Other related parties**	**Total**	**Shareholders**	**Entities under common control**	**Key management personnel**	**Other related parties**	**Total**
Loans outstanding at January 1, gross	**-**	**2,392**	**196**	**-**	**2,588**	**-**	**3,725**	**390**	**422**	**4,537**
Loans issued during the year	595	5,966	2	-	6,563	-	12,396	171	6	12,573
Loan repayments during the year	(595)	(6,708)	(77)	-	(7,380)	-	(12,967)	(235)	(6)	(13,208)
Other movements	-	(17)	34	-	17	-	(762)	(130)	(422)	(1,314)
Loans outstanding at December 31, gross	**-**	**1,633**	**155**	**-**	**1,788**	**-**	**2,392**	**196**	**-**	**2,588**
Less: allowance for impairment at December 31,	-	(9)	-	-	(9)	-	(13)	-	-	(13)
Loans outstanding at December 31, net	**-**	**1,624**	**155**	**-**	**1,779**	**-**	**2,379**	**196**	**-**	**2,575**
Deposits at January 1	**122**	**-**	**352**	**356**	**830**	-	-	**165**	**240**	**405**
Deposits received during the year	3,877	-	104	375	4,356	61	-	108	41	210
Deposits repaid during the year	-	-	(98)	203	105	(61)	-	(79)	(75)	(215)
Deposits at December 31	**3,999**	**-**	**358**	**934**	**5,291**	**122**	**-**	**352**	**356**	**830**
Current accounts at December 31	**86**	**197**	**95**	**477**	**855**	**168**	**341**	**57**	**219**	**785**
Dividends payable	**-**	**-**	**-**	**-**	**-**	**5,462**	-	-	-	**5,462**
Commitments and guarantees issued	**-**	**4,146**	**-**	**-**	**-**	**-**	**9,151**	**-**	**17**	**9,168**

(in thousands of AZN, unless otherwise indicated)

The income and expense arising from related party transactions are as follows:

	Year ended December 31, 2024					Year ended December 31, 2023				
	Share-holders	Entities under common control	Key manage-ment personnel	Other related parties	Total	Share-holders	Entities under common control	Key manage-ment personnel	Other related parties	Total
Interest income on loans	18	310	12	10	350	-	423	-	-	**423**
Interest expense on deposits	(39)	-	(12)	(28)	(79)	-	-	-	(12)	**(12)**
Fee and commission income	29	82	3	118	232	34	103	5	106	**248**
Fee and commission expense	-	-	-	(1)	(1)	-	-	(2)	(2)	**(4)**

(in thousands of AZN, unless otherwise indicated)

As at December 31, 2024 key management personnel (Supervisory Board, Audit committee, Management Board) of the Bank consisted of 9 members (December 31, 2023: 9 members) and compensation of key management personnel was comprised of the following:

	December 31, 2024	**December 31, 2023**
Salaries and other short-term benefits	1,444	1,295
Social security costs	244	219
Total key management personnel compensation	**1,688**	**1,514**

30. CAPITAL ADEQUACY

The objectives of management when managing the Bank's capital are (i) to comply with the capital requirements set by the Central Bank of the Republic of Azerbaijan (CBAR), (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. Compliance with capital adequacy ratios set by the CBAR is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Accountant and Chairman of the Management Board. The other objectives of capital management are evaluated annually.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or return capital to shareholders. No changes were made in the objectives, policies and processes from the previous years.

The CBAR requires banks to maintain a minimum capital adequacy ratio of 5% (December 31, 2023: 5%) and 10% (December 31, 2023: 10%) for Tier 1 Capital and Total Capital, respectively, based on its guidelines.

The Bank was in compliance with the statutory capital adequacy ratio throughout the years 2024 and 2023.

As at December 31, 2024 and 2023, the Bank's capital adequacy ratio on this basis was as follows:

	December 31, 2024 (unaudited)	**December 31, 2023 (unaudited)**
Tier 1 capital	120,188	111,000
Tier 2 capital	16,811	16,825
Total capital	**136,999**	**127,825**
Risk weighted assets	**583,437**	**452,835**
Tier 1 capital adequacy ratio	21%	25%
Total capital adequacy ratio	23%	28%

31. EVENTS AFTER THE END OF THE REPORTING PERIOD

From February 20 until May 29 2025, dividends in the amount of AZN 4,500 thousand have been paid to shareholders, following the decisions of the General Meeting of Shareholders held on February 20, 2025 and May 8, 2025, to declare dividends for the year ended on December 31, 2023.

32. ABBREVAITIONS

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
AC	Amortized Cost
BIC	Bayesian Information Criteria
CBAR	Central Bank of the Republic of Azerbaijan
CCF	Credit Conversion Factor
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective interest rate
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
IFRS	International Financial Reporting Standard
LGD	Loss Given Default
NEER	Nominal Effective Exchange Rate
OCI	Other comprehensive income
PD	Probability of Default
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments’ cash flows represent Solely Principal and Interest