

**“AZER-TURK BANK”
OPEN JOINT STOCK COMPANY**

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

“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the financial statements of "Azer-Turk Bank" Open Joint Stock Company (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2024, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS Standards").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended December 31, 2024 were authorized for issue on 25 April, 2025 by the Management Board of the Bank.

Signed and authorized for release on behalf of the Management Board of the Bank:

Mr. Orkhan Huseynov
Chairman of the Management Board
Baku, the Republic of Azerbaijan

Mr. Orkhan Gadirbey
Deputy Chairman of the Management Board
Baku, the Republic of Azerbaijan

25 April, 2025

25 April, 2025



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Supervisory Board of Azer-Turk Bank OJSC:

Opinion

We have audited the financial statements of Open Joint Stock Company Azer-Turk Bank (the "Bank"), which comprise the statement of financial position as at December 31, 2024, and the statement of profit or loss, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy 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 (IASB).

Basis for Opinion

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

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 as issued by the IASB, 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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.

Jamal Hasanov
Engagement Partner
25 April, 2025



“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2024

(Figures in tables are in thousands of Azerbaijani Manats)

	Notes	December 31, 2024	December 31, 2023
Assets			
Cash and cash equivalents	6, 25	938,170	310,816
Amounts due from credit institutions	7, 25	152,685	106,510
Loans to customers	8, 25	792,861	444,033
Investment securities	9, 25	141,878	65,325
Property and equipment	10	19,692	16,413
Intangible assets	11	6,495	6,007
Other assets	14	19,441	20,626
Total assets		2,071,222	969,730
Liabilities			
Amounts due to credit institutions and government organizations	15, 25	361,893	292,177
Amounts due to customers	16, 25	1,565,057	569,963
Lease liabilities	14	4,333	4,384
Current income tax liability		3,519	1,805
Deferred income tax liabilities	12	400	444
Other liabilities	14	35,734	20,149
Total liabilities		1,970,936	888,922
Equity	17		
Share capital		79,000	50,000
Retained earnings		22,840	30,454
Fair value reserve		(1,554)	354
Total equity		100,286	80,808
Total liabilities and equity		2,071,222	969,730

Signed and authorized for release on behalf of the Management Board of the Bank:

Mr. Orkhan Huseynov

Chairman of the Management Board
Baku, the Republic of Azerbaijan

25 April, 2025

Mr. Orkhan Gadirbey

Deputy Chairman of the Management Board
Baku, the Republic of Azerbaijan

25 April, 2025

The accompanying notes on pages 9 to 62 are an integral part of these financial statements

“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2024

(Figures in tables are in thousands of Azerbaijani Manats)

	Notes	Year ended December 31, 2024	Year ended December 31, 2023
Interest income			
Loans to customers	25	72,388	44,485
Amounts due from credit institutions		28,406	14,589
Investment securities		5,839	4,568
Interest income calculated using the effective interest method		106,633	63,642
Interest expense			
Amounts due to customers		(38,511)	(11,753)
Amounts due to credit institutions and government organizations		(9,390)	(9,079)
Lease liabilities	14	(557)	(641)
		(48,458)	(21,473)
Net interest income		58,175	42,169
Credit loss expense on financial assets	13	(4,034)	(3,371)
Net interest income after impairment losses		54,141	38,798
Fee and commission income	19	22,882	16,996
Fee and commission expense	19	(17,388)	(12,274)
Fee and commission income, net	19	5,494	4,722
Net gains from foreign currencies:			
- dealing	20	14,223	11,984
- translation differences		221	(20)
Other income	20	857	812
Non-interest income		20,795	17,498
Personnel expenses	21	(29,604)	(20,167)
General and administrative expenses	21	(10,917)	(10,565)
Depreciation and amortization	10, 11	(6,783)	(5,882)
Provision for credit related commitments and other impairment	14, 18	(21)	183
Non-interest expenses		(47,325)	(36,431)
Profit before income tax expense		27,611	19,865
Income tax expense	12	(6,225)	(4,146)
Profit for the year		21,386	15,719

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Chairman of the Management Board
Baku, the Republic of Azerbaijan

25 April 2025

Mr. Orkhan Gadirbey
Deputy Chairman of the Management Board
Baku, the Republic of Azerbaijan

25 April 2025

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“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2024

(Figures in tables are in thousands of Azerbaijani Manats)

	Notes	Year ended December 31, 2024	Year ended December 31, 2023
Profit for the year		21,386	15,719
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Changes in allowances for expected credit losses on debt instruments at FVOCI	9	(9)	(130)
Net change in fair value of debt instruments at fair value through other comprehensive income	9	(1,911)	892
Income tax relating to components of other comprehensive income	12	384	(152)
Total other comprehensive income/(expense) to be reclassified to profit or loss for the year, net of tax		(1,536)	610
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</i>	9		
Net change in fair value of equity instruments at fair value through other comprehensive income	9	(465)	(283)
Income tax relating to components of other comprehensive income	12	93	57
Total other comprehensive expense that shall not be reclassified to profit or loss for the year, net of tax		(372)	(226)
Other comprehensive (expense)/income for the year, net of tax		(1,908)	384
Total comprehensive income for the year		19,478	16,103

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Baku, the Republic of Azerbaijan

25 April, 2025

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Deputy Chairman of the Management Board
Baku, the Republic of Azerbaijan

25 April, 2025

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“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2024

(Figures in tables are in thousands of Azerbaijani Manats)

	Share capital	Fair value reserve	Retained earnings	Total equity
January 1, 2023	50,000	(30)	14,735	64,705
Net profit for the year	-	-	15,719	15,719
Other comprehensive loss for the year	-	384	-	384
December 31, 2023	50,000	354	30,454	80,808
Transfer from retained earnings to share capital	29,000	= - =	(29,000)	= - =
Net profit for the year	-	-	21,386	21,386
Other comprehensive income for the year	-	(1,908)	-	(1,908)
December 31, 2024	79,000	(1,554)	22,840	100,286

Signed and authorized for release on behalf of the Management Board of the Bank:

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Chairman of the Management Board
Baku, the Republic of Azerbaijan

25 April, 2025

Mr. Orkhan Gadirbey
Deputy Chairman of the Management Board
Baku, the Republic of Azerbaijan

25 April, 2025

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“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2024

(Figures in tables are in thousands of Azerbaijani Manats)

	Notes	Year ended December 31, 2024	Year ended December 31, 2023
Cash flows from operating activities			
Interest received		105,103	60,390
Interest paid		(46,885)	(20,543)
Fees and commissions received		22,895	17,091
Fees and commissions paid		(16,892)	(12,101)
Net realized gains from currency dealing operations		14,223	11,984
Personnel expenses paid		(29,934)	(20,182)
General and administrative expenses paid		(13,635)	(5,426)
Other income received		857	812
Cash flows provided from operating activities before changes in operating assets and liabilities		35,732	32,025
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		(46,420)	(30,614)
Loans to customers		(352,566)	(125,555)
Other assets		7,620	(11,500)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions and government organizations		61,347	(151,150)
Amounts due to customers		993,211	110,479
Other liabilities		15,408	674
Net cash flows (used in)/ provided from operating activities before income tax		714,332	(175,641)
Income tax paid		(4,085)	(5,721)
Net cash (used in)/ provided from operating activities		710,247	(181,362)
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		121,179	186,472
Purchase of investment securities		(199,339)	(146,757)
Purchase of property and equipment		(5,439)	(5,979)
Acquisition of intangible assets		(2,552)	(1,105)
Net cash provided from/ (used in) investing activities		(86,151)	32,631
Cash flows from financing activities			
Proceeds from amounts due to credit institutions and government organizations	15	32,344	43,472
Repayment of amounts due to credit institutions and government organizations	15	(14,700)	(14,671)
Lease liability paid	14	(3,601)	(3,237)
Net cash provided from financing activities		14,043	25,564
Effect of exchange rate fluctuations on cash and cash equivalents		(10,785)	(1,339)
Net (decrease)/ increase in cash and cash equivalents		627,354	(124,506)
Cash and cash equivalents, beginning	6	310,816	435,322
Cash and cash equivalents, ending	6	938,170	310,816

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Chairman of the Management Board
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25 April, 2025

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Deputy Chairman of the Management Board
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25 April, 2025

The accompanying notes on pages 9 to 62 are an integral part of these financial statements

“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024

(Figures in tables are in thousands of Azerbaijani Manats)

1. Principal activities

Azer-Turk Bank Open Joint Stock Company (the “Bank”) was incorporated in the Republic of Azerbaijan in May 1995. The Bank’s activities are regulated by the Central Bank of the Republic of Azerbaijan (the “CBAR”) and the Bank conducts its business under license number 234.

The Bank’s principal business activity is corporate and retail banking operations. This includes deposit taking and commercial lending in freely convertible currencies and in Azerbaijani manat (“AZN”), transfer payments in Azerbaijan and abroad, support of clients’ export/import transactions, foreign currency exchange and other banking services to its commercial and retail customers.

As at December 31, 2024, the Bank’s network comprised of head office, 1 customer service department and 14 branches (2023: head office, 1 customer service department, 12 branches).

The number of Bank’s employees as at December 31, 2024 was 675 (2023: 587).

The Bank’s registered address is 85 J. Mammadguluzade Street, 192/193, Baku, AZ1078, the Republic of Azerbaijan.

As at December 31, the following shareholders owned the outstanding shares of the Bank:

Shareholder	2024, %	2023, %
Government of the Republic of Azerbaijan	75.00	75.00
T.C. Ziraat Bankasi A.Ş	12.37	12.37
“AzRe Reinsurance” OJSC	6.55	6.55
“Qala Life” Insurance Company OJSC	5.00	5.00
“Ziraat Bank International AG”	1.08	1.08
Total	100.00	100.00

As at December 31, 2024 and December 31, 2023, the ultimate shareholder of the Bank is the Government of the Republic of Azerbaijan, acting through the State Service on Property Issues under the Ministry of Economy of the Republic of Azerbaijan (the “Government”).

According to the decision of the General Meeting of Shareholders in July 2024, 51% of the state-owned shares in the authorized capital of the Bank are to be transferred to State Oil Company of Azerbaijan Republic (SOCAR). However, the necessary procedures are in progress and have not been completed yet.

In August 2020, in order to improve the business activity of the government-owned organizations, the President of the Republic of Azerbaijan approved decree on establishment of Azerbaijan Investment Holding (“AIH”) and on November 5, 2020, the list of state-owned companies to be transferred to the management of Azerbaijan Investment Holding was approved. The transfer of the “Azer-Turk Bank” OJSC to the management of the AIH and the regulation of a number of related issues was approved by the Decree of the President of the Republic of Azerbaijan dated September 22, 2021.

These financial statements were authorised for issue on 25 April, 2025 by the Management Board.

Business environment

The Bank’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 economy of Azerbaijan is particularly sensitive to oil and gas prices. During recent years, the Azerbaijani Government continued major economic and social reforms to accelerate transition to a more balanced economy and reduce dependence on the oil and gas sector. High oil and gas prices in the year 2024 sustained a strong external position and created significant surplus in the country’s current account and increased foreign currency reserves. The Central Bank of Azerbaijan Republic (CBAR) maintained stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD since 2018. The CBAR refinancing rate was decreased from 8.25 to 8.00 per cent in 2023 and further decreased to 7.25 per cent on May 2024 and was unchanged until the end of December 31, 2024, to address stable prices in global markets and decreased inflationary pressure in Azerbaijan.

“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024

(Figures in tables are in thousands of Azerbaijani Manats)

The country's push to align with global climate change goals and host high-profile events like COP29 may lead to the introduction of green banking and sustainable finance practices in the country's financial system. Due to the increasing demands from both domestic and international investors, local banks are starting to integrate Environmental, Social, and Governance (ESG) factors into their decision-making processes.

In February 2022, because of the military conflict between the Russian Federation and Ukraine, a number of countries imposed sanctions against the Russian Federation. The ongoing war in Ukraine and conflict in Israel and Gaza continue to pose risks on the economy, including from another surge in food prices all over the world. A slowdown in some major economies could also lead to fluctuations in oil and gas prices and affect exports and budget revenues, as well as economic activity. 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

General

These financial statements have been prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards). These financial statements have been prepared assuming that the Bank is a going concern and will continue in operation for the foreseeable future.

The Azerbaijani manat (“AZN”) is the functional and presentation currency of the Bank as the majority of transactions are denominated, measured, or funded in AZN. Transactions in other currencies are treated as transactions in foreign currencies. The Bank is required to maintain its records and prepare its financial statements in AZN and in accordance with IFRS Standards. The financial statements are presented in thousands of AZN except per share amounts and unless otherwise indicated.

The financial statements have been prepared under the historical cost convention except investment securities that have been measured at fair value.

3. Application of new and revised international financial reporting standards (IFRSs)

In the current year, the Bank has applied a number of amendments to IFRS Accounting Standards issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2024. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*

The Bank has adopted the amendments to IAS 1, published in January 2020, for the first time in the current year.

The amendments affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024

(Figures in tables are in thousands of Azerbaijani Manats)

Amendments to IAS 1
*Presentation of Financial
Statements — Non-current
Liabilities with Covenants*

The Bank has adopted the amendments to IAS 1, published in November 2022, for the first time in the current year.

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

Amendments to IAS 7
*Statement of Cash Flows
and IFRS 7 Financial
Instruments: Disclosures
titled Supplier
Finance Arrangements*

The group has adopted the amendments to IAS 7 and IFRS 7 titled Supplier Finance Arrangements for the first time in the current year. The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 is amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk

“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024

(Figures in tables are in thousands of Azerbaijani Manats)

Amendments
to IFRS 16
*Leases—Lease
Liability in
a Sale and
Leaseback*

The Bank has adopted the amendments to IFRS 16 for the first time in the current year.

The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 Revenue from Contracts with Customers to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in IFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

As part of the amendments, the IASB amended an Illustrative Example in IFRS 16 and added a new example to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability that arises from a sale and leaseback transaction that qualifies as a sale applying IFRS 15 is a lease liability.

A seller-lessee applies the amendments retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied IFRS 16.

New and revised Standards in issue but not yet effective

At the date of authorization of these financial statements, the Bank has not applied the following new and revised IFRS standards that have been issued but are not yet effective:

IFRS S1 General Requirements for Disclosure of Sustainability related Financial Information	Disclosure of Sustainability-related Financial Information
IFRS S2 — Climate-related Disclosures	Climate-related Disclosures
Amendments to the SASB Standards	Amendments to the SASB standards to enhance their international applicability
Amendments to IAS 21	Lack of Exchangeability
IFRS 18	Presentation and Disclosures in Financial Statements
IFRS 19	Subsidiaries without Public Accountability: Disclosures

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Bank in future periods.

“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024

(Figures in tables are in thousands of Azerbaijani Manats)

4. Material accounting policy information

Fair value measurement

The Bank measures financial instruments carried at Fair value through other comprehensive income (“FVOCI”) such as investment securities, at fair value at each balance sheet date.

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognized on the trade date i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

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 through profit or loss (“FVPL”), transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

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- ▶ Amortized cost (AC);
- ▶ FVOCI;
- ▶ FVPL.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from credit institutions, loans to customers, investments securities at amortized cost

The Bank only measures amounts due from credit institutions and loans to customers, investment debt securities and other financial investment at amortized cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model assessment

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

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

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

The SPPI test

Determining whether a financial asset’s cash flows are solely payments of principal and interest required judgement. The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument’s underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument’s cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument.

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

Debt instruments at FVOCI

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The Bank measures debt instruments at FVOCI when both of the following conditions are met:

- ▶ The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- ▶ The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The Expected credit losses (“ECL”) for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees fall in scope of IFRS 9.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2024.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the Central Bank of Azerbaijan Republic (“CBAR”), excluding obligatory reserves of CBAR, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances. Cash and cash equivalents are carried at

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amortized cost 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.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as loans to customers appropriate. The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Borrowings

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 amounts due to credit institutions and government organizations and amounts due to customers. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Leases

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. 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.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- ▶ The normal course of business;
- ▶ The event of default; and
- ▶ The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Renegotiated loans

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 Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be Purchased or originated credit impaired (“POCI”). When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- ▶ Change in currency of the loan;
- ▶ Change in counterparty;
- ▶ If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, in the statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. For assets in Stages 2 and 3 of ECL calculation to be transferred to Stage 1, all the following criteria should be met (subject to compliance):

- ▶ There is no delay of more than 30 days in the payments of the last 6 months for the financial instrument,
- ▶ The dynamics of changes in the market factors that led to the classification of the financial asset in the 2nd and 3rd classification groups have been reversed (exchange rate, collateral prices, inadequate changes in the sector),
- ▶ The financial asset was removed from the control of structural units engaged in the management of non-performing loans and transferred to the control of the Corporate, Retail Credits or Treasury department,
- ▶ The PD on the financial asset or its external rating has returned to its previous position or to a better one.

Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- ▶ loans and advances to banks
- ▶ loans and advances to customers
- ▶ debt investment securities
- ▶ lease receivables
- ▶ loan commitments issued
- ▶ financial guarantee contracts issued.

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No impairment loss is recognised on equity investments.

Bank applies 3 approaches of ECL calculation:

1. General approach;
2. Simplified approach for trade receivables, contract assets and lease receivables;
3. Approach for purchased or originated credit-impaired financial assets (POCI assets) that are credit-impaired on initial recognition.

Under the General approach, the standard distinguishes following stages of loan impairment:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date (referred to as Stage 1)
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument (referred to as Stage 2 and Stage 3).

External rating based approach is used to assess the credit risk of other financial assets by relying in external credit ratings, mainly from Standard and Poors. It uses historical data on credit rating changes and default rates to estimate the likelihood that a borrower will fail to meet their obligations.

Simplified approach for trade receivables, contract assets and lease receivables

ECL are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

For the undrawn portion of credit lines, Bank applies a Cash Conversion Factor (CCF) to the unused amount in order to calculate the Expected Credit Loss (ECL). The Cash Conversion Factor reflects the proportion of the current undrawn amount that is likely to be drawn down at the time of default. This adjustment accounts for the potential exposure to credit risk arising from the unused portion of the credit line, ensuring a more accurate estimate of the ECL.

For financial guarantee contracts, Bank applies the Cash Conversion Factor (CCF) to the undrawn amount in order to calculate the Expected Credit Loss (ECL).

The Bank measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis. More information on measurement of ECL is provided in note 22, including details on how instruments are grouped when they are assessed on a collective basis.

Credit-impaired financial assets (Stage 3)

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Principal and/or interest payments on a financial instrument are overdue more than 90 days on report date;
- Financial instrument is restructured within last 6 months of report date and principal and/or interest payments are overdue more than 30 days on report date;
- Any external rating downgrade for Investment grade asset (at initial recognition) that results in change to Speculative grade (local government is an exception to this rule);
- Rating downgrade of 3 or more notches;
- Other relevant management information on default situation of the customer might be used to classify the assets under Stage-3.

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Purchased or originated credit-impaired (POCI) financial assets

Financial instruments are treated as purchased credit-impaired financial assets in case of acquiring portfolio with credit-impaired instruments (non-performing portfolio). Financial instruments are treated as originated credit-impaired financial assets in case of derecognition of the loan after restructuring for borrower that has default status (if default status remains after restructuring) or issuing loan to borrower that has default status (other borrower's instruments are credit-impaired).

For purchased or originated credit-impaired financial assets at the date of initial recognition credit losses are accounted for when calculating the effective interest rate. On subsequent reporting dates only the accumulated changes in the amount of expected credit losses for the entire life of the instrument are considered.

Definition of default

The Bank considers a financial instrument defaulted if it falls under the criteria of Stage 3 (credit-impaired loans).

Stage Improvement

The asset is considered to be improved by one stage if both of the following criteria are met:

1. Conditions underlying impairment or significant increase in credit risk, whichever applicable, have improved, i.e.:

- loan is not overdue (0 day past due);
- external ratings have returned to prior (initial recognition) levels or higher.

2. The asset has performed for the last 6 months, i.e.:

- the loan asset with no overdue day for the last 6 months at any date;
- other investment asset has been on schedule for every expected cash flow for the last 6 months

Significant increase in credit risk

In accordance with IFRS 9, financial instruments are classified under Stage-2 if there has been a significant increase in credit risk (SICR). The following criteria are used to determine if an instrument should be assigned to Stage-2:

Principal and/or interest payments on a financial instrument are overdue between 31 and 90 days on report date;

- Financial instrument is restructured within last 6 months of report date and principal and/or interest payments are overdue less than or equal to 30 days on report date;
- Rating downgrade by 2 notches since initial recognition unless the downgrade results in change from Investment grade to Speculative grade (local government is an exception to speculative downgrade rule);
- Other relevant management information on deterioration of financial health of the customer might be used to classify the assets under Stage-2.

PD calculation

The calculation of the probability of default (PD) for loans to the non-financial sector involves categorizing the loans into distinct segments based on historical consistency. These segments include consumer loans, credit cards, business and SME loans, mortgages, and other financial instruments. Each segment requires a customized approach to accurately assess the probability of default, ensuring a thorough evaluation of credit risk across the entire non-financial sector lending portfolio.

The PD calculation process strikes a balance between current market conditions and long-term credit risk trends, utilizing both Point-in-Time (PIT) and Through-the-Cycle (TTC) rates for a robust assessment.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and
- ▶ The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank’s continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Taxation

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

Deferred income tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred income tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

The Republic of Azerbaijan also has various operating taxes that are assessed on the Bank’s activities. These taxes are included as a component of general and administrative expenses.

Current and deferred income taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred income tax are also recognised in other comprehensive income or directly in equity, respectively.

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Property and equipment

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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:

	<i>Useful life in years</i>
Furniture and fixtures	5-10
Computer	5
Vehicles	5
Right of use assets	3-5
Leasehold improvements	3-5
Other fixed assets	5-8

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 other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated 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 ten 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.

Impairment of property, plant and equipment and intangible assets

At each reporting date, the Bank reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication at the end of a reporting period that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed

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the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Azerbaijan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank does not provide post-retirement benefits to its employees.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both 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 recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Contingencies

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

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

The Bank calculates interest income on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Bank calculates interest revenue by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the asset. The credit-adjusted EIR is the interest

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rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCL assets.

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:

- ▶ Income earned from the provision of service is recognized point-in-time, once the respective transactions take place. (for example, servicing plastic card operations, settlement operations, cash operations and others);
- ▶ 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.

Foreign currency translation

The financial statements are presented in Azerbaijani manat, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as gains less losses from foreign currencies – 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 from dealing operations.

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

	2024	2023
1 US Dollar	AZN 1.7000	AZN 1.7000
1 Euro	AZN 1.7724	AZN 1.8766

5. Critical accounting judgements and key sources of estimation uncertainties

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 23.

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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- ▶ The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Losses (“LTECL”) basis and the qualitative assessment;
 - ▶ The segmentation of financial assets when their ECL is assessed on a collective basis;
 - ▶ Development of ECL models, including the various formulae and the choice of inputs;
 - ▶ Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
 - ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

More details are provided in Notes 8 and 22.

Modification of financial assets and financial liabilities

Financial assets

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

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

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

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Bank analogizes to the guidance on the derecognition of financial liabilities.

The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion (e.g. inclusion of conversion feature)

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Bank further performs qualitative evaluation of whether the modification is substantial. If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

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If such a modification is carried out because of financial difficulties of the borrower (see Note 2(d)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

The fair value measurement of term borrowings at initial recognition

The fair value measurement at initial recognition of term borrowings requires judgement in determining the inputs to the valuation technique used, including the discount rate and any applicable risk adjustments (see Note 15).

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	December 31, 2024	December 31, 2023
Cash on hand	27,133	18,708
Current accounts with the CBAR	82,995	18,020
Current accounts with other banks	13,970	36,541
Time deposits with the CBAR up to 90 days	303,100	16,500
Time deposits with other banks up to 90 days	510,972	221,047
Cash and cash equivalents	938,170	310,816

Current accounts with other banks consist of correspondent account balances with resident and non-resident banks in the amount of AZN 164 thousand (2023: AZN 1,336 thousand) and AZN 13,806 thousand (2023: AZN 35,205 thousand), respectively.

Time deposits with other banks up to 90 days consist of short-term deposits and overnight placements at non-resident banks in the amount of AZN 510,972 thousand (2023: AZN 221,047 thousand).

As at December 31, 2024 the Bank has three correspondent account balance (December 31, 2023: one) with outstanding balance exceeding 10% of total current accounts with other banks. The gross value of this balance as at December 31, 2024 is 8,643 AZN thousand (December 31, 2023: AZN 23,334 thousand).

As at December 31, 2024 the Bank has two short-term deposit balances (December 31, 2023: five) with outstanding balance exceeding 10% of total time deposits with other banks up to 90 days. The gross value of this balance as at December 31, 2024 is 404,163 AZN thousand (December 31, 2023: 215,053 AZN thousand).

An analysis by credit quality of amounts of cash and cash equivalents (excluding cash on hand) is as follows:

	December 31, 2024	December 31, 2023
rated A- to A+ (Fitch Ratings)	481,023	181,958
rated BBB- to BBB+ (Fitch Ratings)	404,128	246
rated below BBB- (Fitch Ratings)	25,864	107,096
not rated	22	2,808
Total correspondent accounts with other banks	911,037	292,108

All balances of cash equivalents are allocated to Stage 1. As at December 31, 2024 and 2023 ECL relating to cash and cash equivalents rounds to zero.

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7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	December 31, 2024	December 31, 2023
Time deposits for more than 90 days	61,604	63,734
Obligatory reserve with the CBAR	89,533	41,576
Pledged accounts with credit institutions	1,719	1,742
Total gross amount for Loans to Banks	152,856	107,052
Less: allowance for impairment losses	(171)	(542)
Total Loans to Banks	152,685	106,510

As at December 31, 2024, time deposits for more than 90 days include interest-bearing time deposits in the amount of AZN 61,605 thousand placed in 13 different resident and non-resident credit institutions (2023: AZN 63,734 thousand placed in 11 different resident and non-resident credit institution).

As at December 31, 2024, blocked accounts with credit institutions represented funds blocked by one (December 31, 2023: one) non-resident credit institutions against letters of guarantee and letters of credit (December 31, 2023: letters of guarantee and letters of credit) issued to four customers (December 31, 2023 one customers).

As at December 31, 2024, accrued interest income included in due from banks and other financial institutions amounted to AZN 1,124 thousand (December 31, 2023: AZN 1,241 thousand).

All balances of due from credit institutions are allocated to Stage 1. As at December 31, 2024 ECL relating to amounts due from credit institutions equals to AZN 171 thousand (December 31, 2023: AZN 542 thousand).

As at 31 December 2024, the mandatory cash balances with CBAR totaling 89,533 thousand (December 31, 2023: AZN 41,576 thousand) are included in Due from credit institutions. As at 31 December 2024, credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with CBAR according to new differentiation criteria. The differentiation criteria are as follows:

- Whether the deposits of legal entities in local currency are less than AZN 1,000,000 thousand (AZN 750,000 thousand for foreign currency);
- Whether the proportion of deposits from related parties to total deposits is below than 20%;

Whether the proportion of connected deposits to total deposits is below than 20%.

Due to this criteria the Bank maintained mandatory reserves in CBAR at 10% of the previous month average balances of certain liabilities in AZN and 12% of the previous month average balances of certain liabilities in foreign currencies respectively, attracted from customers by the credit institutions. This is an increase from the previous rates of 4% and 5% respectively, which were in effect until 01 November 2023 when the CBAR made the decision to increase the rates.

8. Loans to customers

Loans to customers comprise:

	December 31, 2024	December 31, 2023
Loans to individuals-consumer	299,003	234,633
Loans to government-owned entities	251,348	-
Loans to individuals-mortgage	193,039	174,646
Corporate loans	34,259	28,285
Loans to individuals-entrepreneurship	26,449	15,638
Gross loans to customers at amortized cost	804,098	453,202
Less: allowance for expected credit losses	(11,237)	(9,169)
Loans to customers at amortized cost	792,861	444,033

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Concentration of loans to customers

Loans are made principally in the following industry sectors:

	December 31, 2024	% in portfolio 2024	December 31, 2023	% in portfolio 2023
Individuals	491,726	61.15%	409,297	90.31%
Oil and gas	257,180	31.98%	3,189	0.70%
Trading enterprises	35,653	4.43%	23,217	5.12%
Others	16,066	2.00%	14,854	3.28%
Agriculture and food processing	1,899	0.24%	888	0.20%
Manufacturing	1,465	0.18%	1,757	0.39%
Transport	109	0.02%	-	-
Loans to customers, gross	804,098	100%	453,202	100%

As at December 31, 2024, The Bank had a concentration of loans represented by AZN 275,604 thousand or 34.2% of the gross loan portfolio (December 31, 2023: AZN 18,585 thousand or 4.1%) due from ten (December 31, 2023: ten) largest borrowers of the Bank. An allowance of AZN 12 thousand (December 31, 2023: 145 thousand) was recognized against these loans. The reason for decrease in ECL in December 31, 2024, is due to AZN 253,256 thousand amount of loan covered with cash collateral (December 31, 2023: AZN 948 thousand).

As at December 31, 2024 accrued interest income included in loans to customers amounted to AZN 5,696 thousand (December 31, 2023: AZN 4,176 thousand).

Allowance for impairment of loans to customers at amortized cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to individuals-mortgage during the year ended December 31, 2024 is as follows:

<i>Loans to individuals-mortgage</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2024	172,318	1,294	1,034	174,646
New assets originated or purchased	32,279	-	-	32,279
Assets repaid	(13,316)	(203)	(449)	(13,968)
Transfers to Stage 1	752	(585)	(166)	1
Transfers to Stage 2	(346)	350	(4)	-
Transfers to Stage 3	(221)	(58)	279	-
Recoveries	-	-	81	81
Amounts written off	-	-	-	-
At December 31, 2024	191,466	798	775	193,039

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Loans to individuals-mortgage	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2024	(19)	(81)	(732)	(832)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(1)	-	-	(1)
Assets repaid	1	10	271	282
Transfers to Stage 1	(0)	0	0	0
Transfers to Stage 2	6	(6)	0	-
Transfers to Stage 3	25	7	(31)	1
Net remeasurement of loss allowance	200	17	(39)	178
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	-	-
Recoveries	-	-	(81)	(81)
Amounts written off	-	-	-	-
At December 31, 2024	212	(53)	(612)	(453)

An analysis of changes in the gross carrying value and corresponding ECL in relation to individuals-consumer loans during the year ended December 31, 2024 is as follows:

Loans to individuals-consumer	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value as at January 1, 2024	218,979	5,964	9,691	-	234,634
New assets originated or purchased	201,853	2,625	1,263	-	205,741
Assets repaid	(133,440)	(2,559)	(2,383)	-	(138,382)
Net remeasurement of POCI	-	-	-	18	18
Transfers to Stage 1	309	(291)	(18)	-	-
Transfers to Stage 2	(4,032)	4,107	(75)	-	-
Transfers to Stage 3	(4,093)	(2,081)	6,174	-	-
Recoveries	-	-	377	-	377
Amounts written off	-	-	(3,385)	-	(3,385)
At December 31, 2024	279,576	7,765	11,644	18	299,003

Loans to individuals-consumer	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at January 1, 2024	(784)	(1,419)	(5,492)	-	(7,695)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>					
New assets originated or purchased	(1,476)	(705)	(581)	-	(2,762)
Assets repaid	368	274	(419)	-	223
Transfers to Stage 1	(2)	2	0	-	(0)
Transfers to Stage 2	990	(1,006)	15	-	(1)
Transfers to Stage 3	1,878	968	(2,846)	-	-
Net remeasurement of loss allowance	72	(758)	(2,010)	(18)	(2,714)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>					
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	(281)	-	(281)
Recoveries	-	-	(377)	-	(377)
Amounts written off	-	-	3,385	-	3,385
At December 31, 2024	1,046	(2,644)	(8,606)	(18)	(10,222)

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An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate loans during the year ended December 31, 2024 is as follows:

Corporate loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2024	21,916	3,393	2,976	28,285
New assets originated or purchased	21,171	-	-	21,171
Assets repaid	(11,069)	(3,253)	(1,031)	(15,353)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(620)	620	-	-
Transfers to Stage 3	(1,580)	(140)	1,720	-
Recoveries	-	-	159	159
Amounts written off	-	-	(3)	(3)
At December 31, 2024	29,818	620	3,821	34,259
Corporate loans	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2024	(67)	(144)	(427)	(638)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(13)	-	-	(13)
Assets repaid	0	144	303	447
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	110	22	(132)	-
Net remeasurement of loss allowance	(29)	-	16	(13)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	(144)	(144)
Recoveries	-	-	(159)	(159)
Amounts written off	-	-	2	2
At December 31, 2024	1	22	(541)	(518)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to government owned entities during the year ended December 31, 2024 is as follows:

Loans to government owned entities	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2024	-	-	-	-
New assets originated or purchased	251,348	-	-	251,348
Assets repaid	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2024	251,348	-	-	251,348

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An analysis of changes in the gross carrying value and corresponding ECL in relation to loans individuals-entrepreneurship during the year ended December 31, 2024 is as follows:

<i>Loans to individuals-entrepreneurship</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2024	15,565	-	74	15,639
New assets originated or purchased	22,224	-	146	22,370
Assets repaid	(11,560)	-	-	(11,560)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(131)	-	131	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2024	26,098	-	351	26,449
<i>Loans to individuals-entrepreneurship</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at January 1, 2024	17	(1)	(19)	(3)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(20)	-	(7)	(27)
Assets repaid	1	-	-	1
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	12	-	(12)	-
Net remeasurement of loss allowance	(3)	-	(12)	(15)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2024	7	(1)	(50)	(44)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans individuals-mortgage during the year ended December 31, 2023 is as follows:

<i>Loans to individuals-mortgage</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2023	142,109	891	638	143,638
New assets originated or purchased	43,233	220	-	43,453
Assets repaid	(11,998)	(397)	(50)	(12,445)
Transfers to Stage 1	350	(350)	-	-
Transfers to Stage 2	(919)	1,020	(100)	1
Transfers to Stage 3	(457)	(90)	547	-
Unwinding of discount	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	(1)	(1)
At December 31, 2023	172,318	1,294	1,034	174,646

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<i>Loans to individuals-mortgage</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at January 1, 2023	(115)	(10)	(128)	(253)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(7)	(13)	-	(20)
Assets repaid	3	3	28	34
Transfers to Stage 1	3	(3)	-	-
Transfers to Stage 2	1	(10)	9	-
Transfers to Stage 3	-	1	(1)	-
Net remeasurement of loss allowance	95	(49)	(600)	(554)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	(39)	(39)
Recoveries	-	-	-	-
Amounts written off	-	-	(1)	(1)
At December 31, 2023	(20)	(81)	(732)	(833)

An analysis of changes in the gross carrying value and corresponding ECL in relation to individuals-consumer loans during the year ended December 31, 2023 is as follows:

<i>Loans to individuals-consumer</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
Gross carrying value as at January 1, 2023	138,790	2,403	4,031	74	145,298
New assets originated or purchased	171,529	2,769	2,098	-	176,396
Assets repaid	(85,216)	(756)	(1,147)	(74)	(87,193)
Net remeasurement of POCI					-
Transfers to Stage 1	241	(241)	-	-	-
Transfers to Stage 2	(2,980)	2,993	(13)	-	-
Transfers to Stage 3	(3,386)	(1,204)	4,590	-	-
Unwinding of discount	-	-	-	-	-
Recoveries	-	-	229	-	229
Amounts written off	-	-	(97)	-	(97)
At December 31, 2023	218,978	5,964	9,691	-	234,633

<i>Loans to individuals-consumer</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL as at January 1, 2023	(1,116)	(395)	(2,757)	-	(4,268)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>					
New assets originated or purchased	(665)	(730)	(915)	-	(2,310)
Assets repaid	489	41	430	-	960
Transfers to Stage 1	62	(61)	(1)	-	-
Transfers to Stage 2	31	(39)	8	-	-
Transfers to Stage 3	30	219	(249)	-	-
Net remeasurement of loss allowance	385	(453)	(1,789)	-	(1,857)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>					
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	(88)	-	(88)
Recoveries	-	-	(229)	-	(229)
Amounts written off	-	-	97	-	97
At December 31, 2023	(784)	(1,418)	(5,493)	-	(7,695)

“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024

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An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate loans during the year ended December 31, 2023 is as follows:

Corporate loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2023	26,619	132	2,080	28,831
New assets originated or purchased	8,567	3,251	606	12,424
Assets repaid	(13,029)	(111)	(369)	(13,509)
Transfers to Stage 1	21	(21)	-	-
Transfers to Stage 2	(143)	143	-	-
Transfers to Stage 3	(119)	-	119	-
Unwinding of discount	-	-	-	-
Recoveries	-	-	539	539
Amounts written off	-	-	-	-
At December 31, 2023	21,916	3,394	2,975	28,285

Corporate loans	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2023	(208)	(25)	(424)	(657)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(1)	(144)	(157)	(302)
Assets repaid	40	25	52	117
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	3	(3)	-	-
Transfers to Stage 3	1	-	(1)	-
Net remeasurement of loss allowance	98	3	742	843
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	(100)	(100)
Recoveries	-	-	(539)	(539)
Amounts written off	-	-	-	-
At December 31, 2023	(67)	(144)	(427)	(638)

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An analysis of changes in the gross carrying value and corresponding ECL in relation to loans individuals-entrepreneurship during the year ended December 31, 2023 is as follows:

<i>Loans to individuals-entrepreneurship</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2023	6,602	-	73	6,675
New assets originated or purchased	13,676	-	-	13,676
Assets repaid	(4,714)	-	-	(4,714)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Unwinding of discount	-	-	1	1
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2023	15,564	-	74	15,638

<i>Loans to individuals-entrepreneurship</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at January 1, 2023	(100)	-	-	(100)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(2)	-	-	(2)
Assets repaid	112	-	-	112
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	2	(2)	-
Net remeasurement of loss allowance	7	(3)	(16)	(12)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	(1)	(1)
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2023	17	(1)	(19)	(3)

Collateral and other credit enhancements

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.

The main types of collateral obtained are as follows:

- For corporate and governmental lending, charges over real estate properties and blocked cash;
- For retail lending, mortgages over residential properties.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for loan impairment. As at 31 December 2024, the maximum exposure of collateralized loans in Stage 3 amounted to AZN 2,396 thousand (December 31, 2023: AZN 1,231 thousand) for which ECL of AZN 927 thousand (December 31, 2023: AZN 32 thousand) was recognized. If these loans were not collateralized the ECL amount for these loans would be AZN 2,386 thousand (December 31, 2023: 964 thousand)

Loans issued at below-market interest rate

During the year ended 31 December 2024, there was no loan issued at a below-market interest rate. (2023: nil).

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9. Investment securities

Investment securities comprises:

	December 31, 2024	December 31, 2024
Debt securities at FVOCI		
Notes issued by the CBAR	3,547	21,971
Notes issued by the CBAR pledged for Repo agreements	-	-
Notes issued by the Ministry of Finance of the Republic of Azerbaijan	53,298	14,606
Notes issued by the Ministry of Finance of the Republic of Azerbaijan pledged for Repo agreements	3,119	8,810
Corporate bonds	81,776	19,819
Total of debt securities	141,740	65,206
Equity securities at FVOCI		
Corporate shares	138	119
Total amount for investment securities at FVOCI	141,878	65,325

The movements in allowances for credit losses were as follows:

	2024	2023
ECL as at January 1	(133)	(263)
New assets originated or purchased	(69)	(29)
Remeasurement	78	159
ECL as at December 31	(124)	(133)

During 2024, new corporate bonds amounted AZN 7,702 thousand at interest rates between 6.0% and 11.5% from BB-rated companies were obtained. (2023: AZN 1,984 thousand at interest rate of 6.0% from B rated Companies and AZN 1,948 thousand at interest rate 5.0%-6.0% from not rated companies).

All balances of investment securities are allocated to Stage 1. The Bank recognized AZN 124 thousand credit loss allowance for investment securities as of 31 December 2024 (2023: AZN 133 thousand)..

As at December 31, 2024, accrued interest income included in investment securities amounted to AZN 2,038 thousand (December 31, 2023: AZN 1,107 thousand).

Details of corporate unquoted shares designated as FVOCI are:

Name	Nature of business	% of ownership	2024	2023
“Milli Kart” LLC	Card processing	2.4	30	119
“IBAR” OJSC	Commercial Bank	0.01	108	-
Total investment securities			138	119

At the General Meeting of Shareholders of “Milli Kart” LLC, held on December 16, 2024, a decision was made to reduce the company's charter capital to 0.25 thousand AZN per nominal share. As a result, the total equity investment was decreased by 30 thousand AZN for the bank shares.

The Bank recognized loss on fair value change of investment securities in the amount of AZN 2,376 thousand during the year ended December 31, 2024 (2023: AZN 609 thousand gain on fair value change of debt investment securities).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024

(Figures in tables are in thousands of Azerbaijani Manats)

10. Property and equipment

The movements in property and equipment were as follows:

	<i>Furniture and fixtures</i>	<i>Computer</i>	<i>Vehicles</i>	<i>Other fixed assets</i>	<i>Leasehold improve- ments</i>	<i>Right of use asset</i>	<i>Total</i>
Cost							
January 1, 2023	6,181	6,260	1,067	355	4,847	11,562	30,272
Additions	3,246	2,699	880	123	943	2,716	10,607
Disposal/derecognition of lease agreement	(313)	(322)	-	(82)	-	-	(717)
December 31, 2023	9,114	8,637	1,947	396	5,790	14,278	40,162
Additions	1,827	1,807	529	117	1,940	3,428	9,648
Disposal/derecognition of lease agreement	(8)	(8)	(5)	(1)	-	(867)	(889)
December 31, 2024	10,933	10,436	2,471	512	7,730	16,839	48,921
Accumulated depreciation							
January 1, 2023	(3,833)	(3,630)	(881)	(257)	(3,826)	(7,326)	(19,753)
Depreciation charge	(648)	(932)	(151)	(29)	(327)	(2,617)	(4,704)
Disposals	313	317	1	77	-	-	708
December 31, 2023	(4,168)	(4,245)	(1,031)	(209)	(4,153)	(9,943)	(23,749)
Depreciation charge	(1,278)	(1,250)	(289)	(54)	(454)	(2,155)	(5,480)
Disposals	-	-	-	-	-	-	-
December 31, 2024	(5,446)	(5,495)	(1,320)	(263)	(4,607)	(12,098)	(29,229)
Net book value							
December 31, 2023	4,946	4,392	916	187	1,637	4,335	16,413
December 31, 2024	5,487	4,941	1,151	249	3,123	4,741	19,692

As at December 31, 2024 property and equipment amounting to AZN 9,391 thousand (2023: AZN 7,890 thousand) were fully depreciated.

Right of use asset includes branches area and ATM-s of the Bank.

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(Figures in tables are in thousands of Azerbaijani Manats)

11. Intangible assets

The movements in intangible assets were as follows:

	<i>Licenses</i>	<i>Computer software</i>	<i>Total</i>
Cost			
January 1, 2023	3,361	6,786	10,147
Additions	100	971	1,071
December 31, 2023	3,461	7,757	11,218
Additions	714	1,119	1,833
December 31, 2024	4,175	8,876	13,051
Accumulated amortization			
January 1, 2023	(1,436)	(2,597)	(4,033)
Amortization charge	(478)	(700)	(1,178)
December 31, 2023	(1,914)	(3,297)	(5,211)
Amortization charge	(565)	(738)	(1,303)
Disposals	(42)	-	(42)
December 31, 2024	(2,521)	(4,035)	(6,556)
Net book value			
December 31, 2023	1,547	4,460	6,007
December 31, 2024	1,654	4,841	6,495

As at December 31, 2024 intangible assets amounting to AZN 813 thousand (2023: AZN 610 thousand) were fully amortized.

12. Taxation

The corporate income tax expense comprises:

	<i>Year ended December 31, 2024</i>	<i>Year ended December 31, 2023</i>
Current income tax charge	(5,793)	(3,839)
Deferred income tax credit – origination and reversal of temporary differences	(432)	(327)
Add: Previous year's profit tax remeasurement	-	20
Income tax expense	(6,225)	(4,146)

Deferred income tax related to items charged or credited to other comprehensive income during the year is as follows:

	<i>Year ended December 31, 2024</i>	<i>Year ended December 31, 2023</i>
Net (loss)/gain on debt and equity instruments designated at FVOCI	477	(95)
Income tax charged to other comprehensive income	477	(95)

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(Figures in tables are in thousands of Azerbaijani Manats)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax charge based on statutory rates with actual is as follows:

	Year ended December 31, 2024	Year ended December 31, 2023
Profit before tax	27,611	19,865
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	(5,522)	(3,973)
Tax effect of non-deductible expenses	(703)	(193)
Previous year's profit tax remeasurement	-	20
	(6,225)	(4,146)

Deferred income tax assets and liabilities as at December 31 and their movements for the respective years comprise:

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>		
	<i>In the statement of profit or loss</i>	<i>In other compre- hensive income</i>		<i>In the statement of profit or loss</i>	<i>In other compre- hensive income</i>	
	January 1, 2023	December 31, 2023	December 31, 2023	January 1, 2023	December 31, 2023	December 31, 2024
Tax effect of deductible temporary differences						
Amounts due from credit institutions	77	85	-	162	(74)	88
Lease Liability	218	128	-	346	111	457
Other liabilities	158	(329)	-	(171)	(466)	(637)
Investment securities	(16)	55	(96)	(57)	(349)	71
Property and equipment	751	304	-	1,055	350	1,405
Other assets	101	(37)	-	64	162	226
Deferred income tax assets	1,289	206	(96)	1,399	(266)	1,610
Tax effect of taxable temporary differences						
Intangible assets	(99)	105	-	6	83	89
Amount due to customers	(78)	201	-	123	365	488
Amounts due to banks and government organizations	(89)	23	-	(66)	(293)	(359)
Loan to customers	(1,043)	(862)	-	(1,905)	(321)	(2,226)
Deferred income tax liabilities	(1,309)	(533)	-	(1,842)	(166)	(2,008)
Net deferred income tax assets/(liabilities)	(20)	(327)	(96)	(443)	(432)	(398)

13. Credit loss recovery and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended December 31, 2024:

	Note	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortized cost	8	2,121	(1,031)	(5,486)	(18)	(4,414)
Investment securities	9	-	-	-	-	9
Due from credit institutions		371	-	-	-	371
Credit (loss)/gain on financial assets		2,501	(1,031)	(5,486)	(18)	(4,034)
Financial guarantees	18	(21)	-	-	-	(21)
Credit related commitments		(21)	-	-	-	(21)
Total credit loss (expense)/recovery		2,480	(1,031)	(5,486)	(18)	(4,055)

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The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended December 31, 2023:

	Note	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortized cost	8	684	(1,215)	(2,544)		(3,075)
Investment securities		130	-	-	-	130
Due from credit institutions		(426)	-	-	-	(426)
Credit (loss)/gain on financial assets		388	(1,215)	(2,544)	-	(3,371)
Financial guarantees	18	183	-	-	-	183
Credit related commitments		183	-	-	-	183
Total credit loss (expense)/recovery		571	(1,215)	(2,544)	-	(3,188)

Provisions for credit related commitments and performance guarantees are recorded in other liabilities.

14. Other assets and liabilities

Other assets comprise:

	December 31, 2024	December 31, 2023
Other financial assets		
Receivables from intermediaries	8,580	14,118
Settlements on operations with plastic cards	6,447	2,677
Settlements on money transfers	1,593	471
Derivative financial assets measured at FVPL (Note 20)	174	540
Total other financial assets	16,794	17,806
Other non-financial assets		
Prepayments for services	1,232	1,892
Reposessed collaterals	779	854
Settlements with government budget	2	74
Prepayments for acquisition of property, equipment and intangible assets	472	-
Deferred expenses	162	-
Total other non-financial assets	2,647	2,820
Total amount for Other assets	19,441	20,626

All balances of other assets are allocated to Stage 1. As at December 31, 2024 and 2023 ECL relating to other assets rounds to zero.

Derivative financial assets comprise foreign currency SWAP transactions with credit institution with notional amount of USD 8,000 thousand payable (2023: USD 6,000 thousand) and AZN 13,855 thousand receivable (2023: AZN 10,980)

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Other liabilities comprise:

	December 31, 2024	December 31, 2023
Other financial liabilities		
Funds in settlement	31,388	15,291
Accrued expenses	2,550	612
Payable to employees	502	581
Blocked accounts of customers	-	1,991
Total other financial liabilities	34,440	18,475
Other non-financial liabilities		
Settlements with government budget	693	1,104
Deferred income	579	566
Provision for ECL for credit related commitment and other provision (Note 18)	22	4
Total other non-financial liabilities	1,294	1,674
Other liabilities	35,734	20,149

The movements in lease liability were as follows:

	December 31, 2024	December 31, 2023
As at January 1	4,384	4,266
Additions	2,631	562
Derecognitions	(400)	-
Remeasurement	762	2,154
Interest expense	557	639
Payments	(3,601)	(3,237)
As at December 31	4,333	4,384

The Bank has remeasured the lease liability and ROU in a prior year, considering the WHT in the lease payments, which are paid by the bank on behalf of the lessor.

The Bank had total cash outflows for leases of AZN 3,601 thousand in December 31, 2024 (2023: AZN 3,237 thousand). The Bank also had non-cash additions to right-of-use assets and lease liabilities of AZN 2,631 thousand in December 31, 2024 (2023: AZN 562 thousand).

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.

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15. Amounts due to credit institutions and government organizations

Amounts due to credit institutions and government organizations comprise:

	December 31, 2024	December 31, 2023
Current accounts	166,463	115,415
Amounts due to the Azerbaijan Mortgage and Credit Guarantee Fund	186,718	169,790
Time deposits and loans	3,657	2,538
Loans received from the Entrepreneurship Development Fund	5,055	3,727
Amounts due to the Ministry of Finance	-	612
Amounts due to CBAR	-	95
Amounts due to credit institutions and government organizations	361,893	292,177

As at December 31, 2024, the Bank had three time deposits (December 31, 2023: three) with 3 resident financial institution in the amount of AZN 3,657 thousand (December 31, 2023: AZN 2,538 thousand) that matures during 2025 and bear average interest rate of 5.26%.

As at December 31, 2024 the Bank has one bank and other financial institutions (December 31, 2023: three) with outstanding balance exceeding 10% of total current accounts of due to credit institutions and government organizations. The gross value of this balance as at December 31, 2024 is AZN 77,122 thousand (December 31, 2023: AZN 47,609 thousand).

On December 20, 2006, the Bank signed a credit agreement with the Azerbaijan Mortgage and Credit Guarantee Fund, for granting long term mortgage loans to individuals. Under this program, funds are made available to the Bank at an interest rate of 1-4% p.a. (2023: 1-4% p.a.) which matures through in 2025-2055 (2023: 2024-2054). The Bank relends these funds to eligible borrowers at rates not higher than 8.0% p.a.

On December 23, 2010, the Bank signed a credit agreement with the Entrepreneurship Development Fund of the Republic of Azerbaijan, for financing of small and medium sized enterprises. Under this program, funds are made available to the Bank at an interest rate of 1% p.a. (2023: 1% p.a.) which matures through 2024-2030 (2023: 2024-2027). The Bank uses these funds to issue loans to eligible borrowers at rate of 6% p.a.

The Bank management believes that there are no other financial instruments similar to term borrowings from Entrepreneurship Development Fund of Azerbaijan Republic and Azerbaijan Mortgage Fund and considers this market as a separate market.

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

	2024	2023
January 1	174,224	145,234
Cash flows		
Proceeds	32,344	43,472
Repayment	(14,700)	(14,671)
Interest paid	(4,408)	(3,566)
Non-cash changes		
Interest expense	4,311	3,754
December 31	191,771	174,223

As at December 31, 2024 accrued interest expense included in amounts due to credit institutions and government organizations amounted to AZN 1,257 thousand (December 31, 2023: AZN 1,175 thousand).

16. Amounts due to customers

The amounts due to customers include the following:

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	December 31, 2024	December 31, 2023
Current accounts	1,042,386	351,123
Time deposits	520,868	210,298
Borrowings under repurchase agreements	1,803	8,542
Amounts due to customers	1,565,057	569,963
Held as security against guarantees and letters of credit (Note 18)	1,904	8,074
Held as security against loans to customers	253,256	1,112
Held as security against other purposes	-	-

As at December 31, 2024 the Bank had 65 customers (December 31, 2023: 45 customers) with balances above AZN 1,000 thousand. The aggregate balance of these customers was AZN 1,419,810 thousand (December 31, 2023: AZN 390,805 thousand) or 91% (December 31, 2023 69%) of total customer accounts.

Customer accounts by economic sectors are as follows:

	December 31, 2024	% in total 2024	December 31, 2023	% in total 2023
State and public organizations	832,224	53.2%	141,465	24.8%
Trade and Services	267,267	17.1%	36,516	6.4%
Individuals	211,241	13.5%	215,100	37.7%
Construction	110,406	7.1%	6,212	1.1%
Insurance companies and other non-bank financial institutions	82,014	5.2%	62,896	11.0%
Transportation and communication	46,084	2.9%	91,516	16.1%
Other	11,175	0.7%	12,358	2.2%
Manufacturing	4,625	0.3%	3,881	0.7%
Agriculture	21	-	19	-
Amounts due to customers	1,565,057	100%	569,963	100%

As at December 31, 2024 the Bank had 4 customers (December 31, 2023: 2 customers) with balances above AZN 50,000 thousand in state and public organizations section. The aggregate balance of these customers was AZN 725,368 thousand (December 31, 2023: AZN 124,110 thousand) or 46% (December 31, 2023 22%) of total customer accounts.

Accrued interest expense included in amounts due to customers as at December 31, 2024 amounted to AZN 6,205 thousand (December 31, 2023: AZN 4,170 thousand).

17. Equity

As at December 31, 2024 and 2023, the Bank's share capital is represented by authorized, issued and fully paid up 50,000,000 ordinary shares with nominal amount of 1 (one) Azerbaijani manat per share. Each ordinary share carries one vote.

In December 2024 the process of increase the bank's share capital from 50 million manats to 79 million manats by increasing the nominal value of one share from 1 manat to 1.58 manats at the expense of 29 million manats of retained earnings was registered in National Depository Centre. In January 2025 the process was completed.

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

Fair value reserve

This reserve records fair value changes on financial assets at FVOCI.

18. Commitment and contingencies

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Legal

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

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. The last tax audit covered second quarter of 2015 and third quarter of 2016.

In management's view, the relevant legislation as at December 31, 2024 is appropriate and the Bank's tax, currency and customs positions will be sustained.

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions.

Compliance with CBAR requirements

CBAR requires banks to maintain certain prudential norms computed based on statutory financial statements.

In December 2024, the Bank failed to meet the minimum leverage ratio required by the Central Bank of the Azerbaijan Republic (CBAR), resulting in the issuance of a mandatory order by CBAR. The order instructed the Bank to rectify the breach and implement measures to prevent recurrence. The Bank's management addressed the breach in January 2025, reinstating compliance with the CBAR's mandatory ratio requirements.

Financial commitments and contingencies

The Bank provides guarantees and letters of credit to customers with primary purpose of ensuring that funds are available to a customer as required. Guarantees and standby letters of credit represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing 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.

The undrawn loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavourable to the Bank arise, including change of the refinance rate, inflation, exchange rates and others.

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As at December 31, the Bank's commitments and contingencies comprised the following:

	December 31, 2024	December 31, 2023
Credit related commitments		
Financial guarantees	23,411	35,275
Undrawn loan commitments	15,215	13,696
Letters of credit	97	596
	38,723	49,567
Performance guarantees	11,256	4,872
Commitments and contingencies	49,979	54,439
Provisions for ECL for credit related commitments	22	5
Deposits held as security against financial guarantees (Note 16)	546	6,808
Deposits held as security against performance guarantees (Note 16)	1,261	1,266
Deposits held as security against letters of credit (Note 16)	97	-

Financial commitments and contingencies

An analysis of changes in the ECLs during the year ended December 31, 2024 is as follows:

Credit related commitments	Stage 1	Stage 2	Total
ECLs as at January 1, 2024	(5)	-	(5)
New exposures	(15)	-	(15)
Exposures derecognised or matured (excluding write-offs)	5	-	5
Transfers to Stage 1	-	-	-
Net remeasurement of loss allowance	(6)	-	(6)
At December 31, 2024	(21)	-	(21)

An analysis of changes in the ECLs during the year ended December 31, 2023 is as follows:

Credit related commitments	Stage 1	Stage 2	Total
ECLs as at January 1, 2023	(168)	(20)	(188)
New exposures	(3)	-	(3)
Exposures derecognised or matured (excluding write-offs)	180	6	186
Transfers to Stage 1	(14)	14	-
Net remeasurement of loss allowance	-	-	-
At December 31, 2023	(5)	-	(5)

As at December 31, 2024 and December 31, 2023 ECL relating to undrawn loan commitments is zero.

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19. Net fee and commission income

Net fee and commission income comprises:

	Year ended December 31, 2024	Year ended December 31, 2023
Servicing plastic card operations	13,026	6,320
Settlements operations	4,619	5,148
Cash operations	1,960	2,151
Foreign exchange operations	1,000	1,431
Guarantees and letter of credit	1,166	875
Other	1,111	1,071
Fee and commission income	22,882	16,996
Servicing plastic card operations	(14,166)	(9,310)
Settlements operations	(872)	(856)
Cash operations	(474)	(530)
Guarantees and commitments	(36)	(90)
Other	(1,840)	(1,488)
Fee and commission expense	(17,388)	(12,274)
Net fee and commission income	5,494	4,722

20. Other income

Other income comprises:

	Year ended December 31, 2024	Year ended December 31, 2023
Income from derivative operations (Note 14)	527	540
Income from disposal of investment securities measured at FVOC	-	117
Income from sale of repossessed collaterals	-	-
Other income	330	155
Total other income	857	812

During 2024, the Bank additionally had gain from dealing in foreign exchange transactions in the amount of AZN 28,881 thousand (2023: AZN 16,687 thousand). Dealing operations of the Bank and dealing gain from RUB exchanges, subsequently has increased as a result of global changes affected to Russia due to sanctions.

21. Personnel, general and administrative expenses

Personnel expenses comprise:

	Year ended December 31, 2024	Year ended December 31, 2023
Salaries and bonuses	(22,854)	(15,654)
Social security costs	(5,655)	(3,842)
Other employee related expenses	(1,095)	(671)
Personnel expenses	(29,604)	(20,167)

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General and administrative expenses comprise:

	Year ended December 31, 2024	Year ended December 31, 2023
Data processing	(1,604)	(1,751)
Deposit insurance expenses	(1,524)	(1,437)
Communication	(1,428)	(1,138)
Marketing and advertising	(1,047)	(982)
Operating taxes other than income tax	(989)	(416)
Legal and Consultancy	(848)	(1,980)
Utility expenses	(662)	(469)
Office supplies	(600)	(418)
Repair and maintenance of property and equipment	(417)	(595)
Business Travel	(381)	(323)
Security	(306)	(285)
Membership Expenses	(51)	(43)
Auction expenses	(9)	(1)
Collection services	-	-
Other	(1,051)	(727)
Total general and administrative expenses	(10,917)	(10,565)

Fees charged to the Bank for the provision of audit and non-audit services during the year ended 31 December 2024 are AZN 244 thousand and AZN 71 thousand, respectively.

22. 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 continuing 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 risk, liquidity risk and market risk. It is also subject to 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 independent 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.

Audit Committee

The Audit Committee has the overall responsibility for the establishment and development of the audit mission and strategy. It is responsible for the fundamental audit issues and monitoring Internal Audit's activities.

Management Board

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

Risk Committee

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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 Department 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 Audit Committee.

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 worse 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 risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions and liquidity ratios. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of market limits and liquidity, plus any other risk developments.

Risk mitigation

The Bank actively uses collateral to reduce its credit risks.

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.

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

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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. 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.

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, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents 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. The effect of collateral and other risk mitigation techniques is shown in Note 8.

Impairment assessment

The Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The <i>Probability of Default</i> is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The <i>Exposure at Default</i> is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The <i>Loss Given Default</i> is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When loans are first recognized, the Bank recognizes an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an

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	allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Bank records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. ECL are only recognized or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- ▶ Default and Credit-impaired assets:
 - ▶ Loans with principal amount and/or accrued interest and/or any of other payment overdue by more than 90 days from the date specified in the contract;
 - ▶ Loans that have been restructured;
 - ▶ Any loan considered by management as non-performing.
- ▶ Existing of information that borrower will/has enter bankruptcy, insolvency or a similar condition.
- ▶ Default on other financial instruments of the same borrower.
- ▶ Default according to external rating.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

PD estimation process

The Bank runs separate models for its key portfolios. The models incorporate quantitative information and utilise supplemental external information that could affect the borrower's behaviour. In order to consider the impact of macroeconomic factors on probability of default, sensitivity of probabilities to the macroeconomic factors are calculated by statistical regression method. Where practicable, PDs, incorporate forward looking macroeconomic information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank analyses publicly available information such as financial information and other external data, e.g., the external ratings to determine PD and LGD.

Consumer lending and residential mortgages

Consumer lending comprises secured and unsecured personal loans, credit cards and overdrafts. These products along with residential mortgages and some of the less complex small business lending are rated by days past due.

The probability of default for consumer loans is calculated using migration matrices. For this purpose, simplified migration matrices, which reflect the change from respective month of one year to the same month of the next year are prepared based on the amounts of loans in each matrices. Other key inputs into the models are real GDP growth and AZN/USD rates.

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Corporate and small business lending

The same approach and inputs as for consumer lending applies to corporate and small business lending. For corporate loans, migration matrices used in the PD calculations are determined by the number of loans in each matrix. LGD is calculated based on so-called roll rates, which only uses available historical data on the month recoveries of defaulted loans (the data is displayed monthly and discounted).

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

Loss given default

For corporate lending assets, LGD values are assessed at least quarterly by account managers and reviewed and approved by the Bank.

The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type) as well as borrower characteristics.

Where appropriate, further recent data is used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group.

LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 segment of each asset class.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. In certain cases, the Bank may also consider that events explained in "Definition of default" section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. The other criteria used for the significant increase in credit risk are as follows:

- ▶ The financial instrument is in foreign currency, and from the moment of its initial recognition until the reporting date, the foreign currency exchange rate has increased by 20%,
- ▶ The value of the collateral for the financial asset after the corresponding depreciation and amortization is less compared to the initial assessment, at the same time compared to the residual value of the financial asset, and there is a delay in repayments of 15-30 days for the asset,
- ▶ The probability of default on the financial asset has increased by 10-30%,
- ▶ The financial instrument has been restructured and currently the number of overdue days on principal debt and/or interest is below 30

For interbank operations and bonds issued by the banks:

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

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When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- ▶ The treasury and interbank relationships (such as amounts due from banks, cash equivalents and debt investment securities at amortized cost and FVOCI).

ECL on all other assets calculated on collective basis.

Forward-looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- ▶ GDP;
- ▶ Real GDP;
- ▶ Non-oil real GDP;
- ▶ Nominal people income;
- ▶ Nominal salaries;
- ▶ Budget deficit;
- ▶ Volume of overdue credits in the country;
- ▶ Total credit portfolio of all banks in Azerbaijan.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Credit quality per class of financial assets

The Bank classifies its credit related assets as follows:

High grade – counterparties with highly liquid collaterals or strong government support, excellent financial performance, having no changes in the terms and conditions of loan agreements and no overdue in principal and interest.

Standard grade – counterparties with stable financial performance, having no changes in the terms and conditions of loan agreements and 0-30 overdue days in principal and interest.

Sub-standard grade – counterparties with satisfactory financial performance, having changes in the terms and conditions of loan agreements and 30-90 overdue days in principal and interest.

Impaired – counterparties with unsatisfactory financial performance, having changes in the terms and conditions of loan agreements and more than 90 overdue days in principal and interest.

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

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December 31, 2024	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	6	Stage 1	842,119	96,051	-	-	938,170
Amounts due from credit institutions	7	Stage 1	32,726	119,959	-	-	152,685
Loans to customers at amortized cost	8						
- Government related entities		Stage 1	251,348	-	-	-	251,348
- Loans to individuals – consumer loans		Stage 1	-	279,576	-	-	279,576
		Stage 2	-	-	7,765	-	7,765
		Stage 3	-	-	-	11,662	11,662
- Corporate loans		Stage 1	-	29,818	-	-	29,818
		Stage 2	-	-	620	-	620
		Stage 3	-	-	-	3,821	3,821
- Loans to individuals – entrepreneurs		Stage 1	-	26,098	-	-	26,098
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	351	351
- Loans to individuals – mortgage loans		Stage 1	-	191,466	-	-	191,466
		Stage 2	-	-	798	-	798
		Stage 3	-	-	-	775	775
Debt securities at FVOCI	9	Stage 1	121,463	20,415	-	-	141,878
Other financial assets	14	Stage 1	4,100	12,694	-	-	16,794
Undrawn loan commitments	18	Stage 1	-	15,215	-	-	15,215
Letters of credit	18	Stage 1	-	97	-	-	97
Performance guarantees	18	Stage 1	-	11,256	-	-	11,256
Performance guarantees	18	Stage 2	-	-	-	-	-
Financial guarantees	18	Stage 1	-	23,411	-	-	23,411
Financial guarantees	18	Stage 2	-	-	-	-	-
Total			1,251,756	826,056	9,183	16,609	2,103,604

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December 31, 2023	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	6	Stage 1	184,150	126,666	-	-	310,816
Amounts due from credit institutions	7	Stage 1	71,284	35,226	-	-	106,510
Loans to customers at amortized cost	8						
- Government related entities		Stage 1	-	-	-	-	-
- Loans to individuals – consumer loans		Stage 1	-	218,978	-	-	218,978
		Stage 2	-	-	5,964	-	5,964
		Stage 3	-	-	-	9,691	9,691
- Corporate loans		Stage 1	1,621	20,295	-	-	21,916
		Stage 2	-	-	3,394	-	3,394
		Stage 3	-	-	-	2,975	2,975
- Loans to individuals – entrepreneurs		Stage 1	-	15,564	-	-	15,564
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	74	74
- Loans to individuals – mortgage loans		Stage 1	-	172,318	-	-	172,318
		Stage 2	-	-	1,294	-	1,294
		Stage 3	-	-	-	1,034	1,034
Debt securities at FVOCI	9	Stage 1	46,512	18,813	-	-	65,325
Other financial assets	14	Stage 1	12,974	4,832	-	-	17,806
Undrawn loan commitments	18	Stage 1	-	13,696	-	-	13,696
Letters of credit	18	Stage 1	-	596	-	-	596
Performance guarantees	18	Stage 1	-	4,872	-	-	4,872
Performance guarantees	18	Stage 2	-	-	-	-	-
Financial guarantees	18	Stage 1	13,471	21,804	-	-	35,275
Financial guarantees	18	Stage 2	-	-	-	-	-
Total			330,012	653,660	10,652	13,774	1,008,098

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

Financial guarantees, undrawn loan commitments and letters of credit are assessed and a provision for expected credit losses is calculated in similar manner as for loans, see Note 18.

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The geographical concentration of Bank's financial assets and liabilities is set out below:

	December 31, 2024				December 31, 2023			
	Azerbaijan	OECD	CIS and other foreign countries	Total	Azerbaijan	OECD	CIS and other foreign countries	Total
Assets								
Cash and cash equivalents	413,392	424,178	100,600	938,170	96,854	133,456	80,506	310,816
Amounts due from credit institutions	95,377	44,442	12,866	152,685	57,767	40,056	8,687	106,510
Investment securities	76,752	41,504	23,622	141,878	61,674		3,651	65,325
Loans to customers	792,861	-	-	792,861	444,033	-	-	444,033
Other financial assets	12,608	4,100	86	16,794	13,809	3,588	409	17,806
	1,390,990	514,224	137,174	2,042,388	674,137	177,100	93,253	944,490
Liabilities								
Amounts due to credit institutions and government organizations	285,289	874	75,730	361,893	213,707	8	78,462	292,177
Amounts due to customers	1,459,174	21,778	84,105	1,565,057	546,229	2,245	21,489	569,963
Lease liabilities	4,333			4,333	4,384			4,384
Other financial liabilities	34,440	-	-	34,440	18,475	-	-	18,475
	1,783,236	22,652	159,835	1,965,723	782,795	2,253	99,951	884,999
Net assets	(392,246)	491,572	(22,661)	76,665	(108,658)	174,847	(6,698)	59,491

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 diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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

The liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the CBAR. The CBAR requires banks to maintain instant liquidity ratio of more than 30%. As at December 31, these ratios were as follows:

	2024, %	2023, %
Instant liquidity ratio (assets receivable or realisable within one day / liabilities repayable on demand)	78.22	62.32

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Bank's financial liabilities at December 31, based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. In accordance with Azerbaijani legislation, the Bank is obliged to repay the principal amounts of a term deposit upon demand of the depositor. 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.

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<i>As at December 31, 2024</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Financial liabilities					
Amounts due to credit institutions and government organizations	355,199	1,673	3,502	1,799	362,173
Amounts due to customers	1,234,769	92,228	303,592	-	1,630,589
Lease Liabilities	13	711	5,057	-	5,781
Other financial liabilities	34,440	-	-	-	34,440
Total undiscounted financial liabilities	<u>1,624,421</u>	<u>94,612</u>	<u>312,151</u>	<u>1,799</u>	<u>2,032,983</u>
<i>As at December 31, 2023</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Financial liabilities					
Amounts due to credit institutions and government organizations	287,093	707	3,184	1,193	292,177
Amounts due to customers	464,386	76,267	39,309	-	579,962
Lease Liabilities	12	113	5,011	-	5,136
Other financial liabilities	17,863	12	600	-	18,475
Total undiscounted financial liabilities	<u>769,354</u>	<u>77,099</u>	<u>48,104</u>	<u>1,193</u>	<u>895,750</u>

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

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2024	38,723	-	-	-	38,723
2023	49,567	-	-	-	49,567

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

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. There is a significant concentration of deposits from individuals and entities period less than one year. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. This level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

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 exchanges. The Bank classifies exposures to market risk into non-trading portfolios. Non-trading positions are managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

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. As at December 31, 2024 and December 31, 2023, the Bank does not have any significant floating rate non-trading financial instruments.

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

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Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the CBAR regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at December 31, 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 manat, with all other variables held constant on the statement of profit or loss (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. A negative amount in the table reflects a potential net reduction in statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	Increase in currency rate in % 2024	Effect on profit before tax 2024	Increase in currency rate in % 2023	Effect on profit before tax 2023
USD	10.00%	(754)	10.00%	(536)
EUR	10.00%	10	10.00%	236

Currency	Decrease in currency rate in % 2024	Effect on profit before tax 2024	Decrease in currency rate in % 2023	Effect on profit before tax 2023
USD	-10.00%	754	-3.00%	161
EUR	-10.00%	(10)	-6.00%	(141)

The currency breakdown of Bank's financial assets and liabilities is set out below:

As at 31 December, 2024	AZN	USD	EUR	Other	Total
Cash and cash equivalents	337,674	407,364	125,900	67,232	938,170
Due from banks	51,360	100,286	1,039	-	152,685
Loans and advances to customers	574,980	217,810	71	-	792,861
Investment securities	61,709	80,169	-	-	141,878
Other financial assets	12,039	4,284	469	2	16,794
Total financial assets	1,037,762	809,913	127,479	67,234	2,042,388
Amounts due to credit institutions and government organizations	199,200	94,878	16,548	51,267	361,893
Amounts due to customers	735,461	706,072	110,416	13,108	1,565,057
Lease liabilities	4,333	-	-	-	4,333
Other financial liabilities	17,519	16,506	411	4	34,440
Total financial liabilities	956,513	817,456	127,375	64,379	1,965,723
Open position	81,249	(7,543)	104	2,855	76,666

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As at 31 December, 2023	AZN	USD	EUR	Other	Total
Cash and cash equivalents	75,779	120,545	71,172	43,320	310,816
Due from banks	31,313	70,488	4,709	-	106,510
Loans and advances to customers	435,707	8,248	78	-	444,033
Investment securities	48,575	16,750	-	-	65,325
Other financial assets	14,178	3,077	547	4	17,806
Total financial assets	605,552	219,108	76,506	43,324	944,490
Amounts due to credit institutions and government organizations	177,260	64,944	17,429	32,544	292,177
Amounts due to customers	348,162	155,009	56,535	10,257	569,963
Lease liabilities	4,384	-	-	-	4,384
Other financial liabilities	13,725	4,513	186	51	18,475
Total financial liabilities	543,531	224,466	74,150	42,852	884,999
Open position	62,021	(5,358)	2,356	472	59,491

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 through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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23. Fair value measurement

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

		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 measured at fair value					
Investment securities at FVOCI	December 31, 2024	84,490	57,388	-	141,878
Other financial assets (derivatives measured at FVPL (FX SWAP))	December 31, 2024	-	174	-	174
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2024	27,133	911,037	-	938,170
Amounts due from credit institutions	December 31, 2024	-	152,685	-	152,685
Loans to customers	December 31, 2024	-	-	792,333	792,333
Other financial assets	December 31, 2024	-	-	16,794	16,794
Liabilities for which fair values are disclosed					
Amounts due to credit institutions and government organizations	December 31, 2024	-	361,893	-	361,893
Amounts due to customers	December 31, 2024	-	520,610	1,044,189	1,564,799
Lease liabilities	December 31, 2024	-	-	4,333	4,333
Other financial liabilities	December 31, 2024	-	-	34,440	34,440

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		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 measured at fair value					
Investment securities at FVOCI	December 31, 2023	14,152	51,173	-	65,325
Other financial assets (derivatives measured at FVPL (FX SWAP))	December 31, 2023	-	540	-	540
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2023	18,708	292,108	-	310,816
Amounts due from credit institutions	December 31, 2023	-	106,510	-	106,510
Loans to customers	December 31, 2023	-	-	442,165	442,165
Other financial assets	December 31, 2023	-	-	17,806	17,806
Liabilities for which fair values are disclosed					
Amounts due to credit institutions and government organizations	December 31, 2023	-	292,177	-	292,177
Amounts due to customers	December 31, 2023	-	359,665	208,739	568,404
Lease liabilities	December 31, 2023	-	-	4,384	4,384
Other financial liabilities	December 31, 2023	-	-	18,475	18,475

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	938,170	938,170	310,816	310,816
Amounts due from credit institutions	152,685	152,685	106,510	106,510
Investment securities	141,878	141,878	65,325	65,325
Loans to customers	792,861	792,333	444,033	442,165
Other financial assets	16,794	16,794	17,806	17,806
Financial liabilities				
Amounts due to credit institutions and government organizations	361,893	361,893	292,177	292,177
Amounts due to customers	1,565,057	1,564,799	569,963	568,404
Lease liabilities	4,333	4,333	4,384	4,384
Other financial liabilities	34,440	34,440	18,475	18,475

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the statement of financial position, but whose fair value is disclosed.

Investment securities at FVOCI

Investment securities at FVOCI valued using a valuation technique or pricing models primarily consist of unquoted equity and quoted or unquoted debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

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Derivative financial assets

The fair values of derivative financial instruments are recorded as assets or liabilities. The notional amount is the amount of a derivative's underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The fair value of the derivatives is determined by considering the spread derived from market-observable foreign exchange rates. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

Financial assets and financial liabilities carried at amortized cost

The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to government organizations and credit institutions and 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.

24. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be due or settled. See Note 22 “Risk management” for the Bank's contractual undiscounted repayment obligations.

	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	938,170	-	938,170	310,816	-	310,816
Amounts due from credit institutions	152,685	-	152,685	106,510	-	106,510
Investment securities	26,287	115,591	141,878	38,370	26,955	65,325
Loans to customers	79,462	713,399	792,861	27,254	416,779	444,033
Other financial assets	16,794	-	16,794	17,806	-	17,806
Total	1,213,398	828,990	2,042,388	500,756	443,734	944,490
Amounts due to credit institutions and government organizations	356,776	5,117	361,893	118,345	173,832	292,177
Amounts due to customers	1,321,987	243,070	1,565,057	537,542	32,421	569,963
Lease liabilities	633	3,700	4,333	14	4,370	4,384
Other financial liabilities	34,440	-	34,440	17,875	600	18,475
Total	1,713,836	251,887	1,965,723	673,776	211,223	884,999
Net	(500,438)	577,103	76,665	(173,020)	232,511	59,491

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank holds a significant amount of highly liquid assets (bonds) valued at AZN 84,490 thousand which can be readily converted into cash in the event of liquidity issues. Additionally, the substantial increase in amounts due to customers is primarily attributed to the SOCAR Group, a new shareholder of the Bank, which will provide support in the event of liquidity challenges.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

Management believes that although current accounts balance of AZN 1,042,386 thousand as of 31 December 2024 (December 31, 2023: AZN 351,123 thousand) is included under on within one year category in maturity table, apparently not all of these amounts will be withdrawn in period of one month. Past experience demonstrates that current account balances have not decreased more than 31% for the period of last ten years.

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25. 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.

The Government of the Republic of Azerbaijan, acting through the Shareholders, controls the Bank activities. The Government of the Republic of Azerbaijan directly and indirectly controls and has significant influence over a significant number of entities through its government agencies and other organizations (together referred to as “government institutions”). The Government of the Republic of Azerbaijan does not provide to the general public or entities under its ownership/control a complete list of the entities, which are owned or controlled directly or indirectly by the government. Under these circumstances, the management of the Bank disclosed only information that its current internal management system allows to present in relation to operations with government-controlled entities and where the management believes such entities could be considered as government-controlled based on its best knowledge.

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. 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.

Operations with related parties are hold in accordance with relevant CBAR legislation, under defined normative.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	December 31, 2024			December 31, 2023		
	Shareholders	Entities under common control	Key management personnel	Shareholders	Entities under common control	Key management personnel
Loans outstanding at January 1, gross			415	-		162
Loans issued during the year	-	212,541	20,436	-	-	311
Loan repayments during the year	-	-	(15,211)	-	-	(58)
Loans outstanding at December 31	-	212,541	5,640	-	-	415
Interest income on loans	-	14,066	42	-	-	23

Loans to related parties are issued on the basis of Supervisory Board decision. Terms of loans issued to related parties are defined by loan agreement under market terms and in accordance with relevant legislation. CBAR requires banks to maintain certain prudential ratios related to amounts issued to related parties computed based on statutory financial statements. As at 31 December 2024, the Bank was in compliance with these ratios.

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There was no ECL recognized in relation to the loans to the related parties during the year ended December 31, 2024 and December 31, 2023.

	December 31, 2024			December 31, 2023		
	Shareholders	Entities under common control	Key management personnel	Shareholders	Entities under common control	Key management personnel
Deposits at January 1,	-	-	-	3,707	-	-
Deposits received during the year	-	65,755	-	-	-	-
Deposits repaid during the year	-	-	-	(3,707)	-	-
Deposits at December 31,	-	65,755	-	-	-	-
Carrying value as at December 31						
Current accounts	10,053	768,124	559	1,469	139,398	1,851
Cash and cash equivalents	352	-	-	197	119,601	-
Due from credit institutions	1,700	-	-	5,453	-	-
Due to credit institutions and government organizations	-	67,715	-	-	174,203	-
Investment securities	56,415	1,120	-	-	43,886	-
Interest income on due from credit institutions	294	3,125	-	181	638	-
Interest income on investment securities	-	1,355	-	-	3,382	-
Interest expense on customer deposits	-	8,860	2	-	874	2
Interest expense on due to credit institutions and government organizations	27	5,240	-	29	1,094	-
Other operating expenses	-	5,921	-	-	3,745	-
Operating income						

Compensation of key management personnel is as follows:

	Year ended December 31, 2024	Year ended December 31, 2023
Salaries and other benefits	1,188	818
Social security costs	261	200
Total key management personnel compensation	1,449	1,018

26. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored by the CBAR in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

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

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of dividend payment to shareholders, return capital to shareholders or issue capital securities. No change was made in the objectives, policies and processes from the previous years.

As at December 31, 2024 the Bank's regulatory capital after deductions were AZN 98,876 thousand which is in the range of the required minimum of AZN 50,000 thousand set by CBAR (2023: AZN 78,437 thousand)

The government of Azerbaijan Republic stands ready to provide capital injection necessary to ensure Bank's compliance with regulatory requirements of the CBAR and enable it to continue normal operations.

Management believes that the Bank will not face any sanctions against the Bank in the future.

CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum Tier 1 and total capital adequacy ratio of 5% (2023: 5%) and 10% (2023: 10%), respectively, of risk-weighted assets for regulatory capital.

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

	December 31, 2024 (unaudited)	December 31, 2023 (unaudited)
Tier 1 capital	73,027	59,479
Tier 2 capital	27,308	19,078
Less: deductions from capital	(1,459)	(120)
Total regulatory capital	98,876	78,437
Risk weighted assets	850,739	650,779
Capital adequacy ratio (Tier 1)	8.58%	9.14%
Capital adequacy ratio (Total Capital)	11.62%	12.05%

To minimize the risk of breach in CBAR required norms in the future, management has introduced additional controls aimed at detecting potential breaches in advance. Furthermore, as a long-term solution and to support the Bank's future growth, management intends to increase the issuance of common shares, which will consequently raise Tier 1 capital.

27. Subsequent Events

According to the decision of the General Meeting of Shareholders in July 2024, 51% of the state-owned shares in the authorized capital of the Bank were to be transferred to State Oil Company of Azerbaijan Republic (SOCAR). However, the necessary procedures are in progress and have not been completed yet.