“Yapi Kredi Bank Azerbaijan” CJSC

Financial Statements

Year ended 31 December 2024
together with independent auditor’s report

Contents

Independent Auditor’s Report

Financial Statements

Notes to Financial Statements

Independent auditor's report

To the Shareholders and Management Board of Yapi Kredi Bank Azerbaijan CJSC

Opinion

We have audited the financial statements of Yapi Kredi Bank Azerbaijan CJSC (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2024, and the statement of profit or loss and other statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including 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 31 December 2024, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *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' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (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 Audit Committee for the financial statements

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

In preparing the financial statements, management is responsible for assessing the 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.

The Audit Committee is 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.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 the Audit Committee 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.

Baku, Azerbaijan

30 May 2025

Statement of financial position

As at 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	2024	2023
Assets			
Cash and cash equivalents	5	287,169	93,562
Amounts due from credit institutions	6	43,893	47,906
Investment securities	7	77,724	85,842
Loans to customers	8	299,771	273,063
Right of use assets	11	14,029	10,744
Property and equipment	9	6,027	4,479
Intangible assets	10	9,658	7,244
Other assets	13	11,086	10,139
Total assets		**749,357**	**532,979**
Liabilities			
Amounts due to banks and government funds	14	41,964	31,871
Amounts due to customers	15	563,584	371,376
Current income tax liabilities	12	325	2,997
Deferred income tax liabilities	12	500	868
Other liabilities	13	25,823	23,192
Total liabilities		**632,196**	**430,304**
Equity			
Share capital	16	55,381	55,381
Retained earnings		61,272	47,114
Other reserves		180	180
Unrealized gain/loss reserve		328	–
Total equity		**117,161**	**102,675**
Total liabilities and equity		**749,357**	**532,979**

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

Mete Shamil Ozturk
Chairman of the Management Board /
Chief Executive Officer

Serkan Gunal
Member of the Management Board /
Chief Financial Officer

Ramin Saftarov
Manager of Financial Reports and
Development Department

Elshan Babayev
Chief Accountant

Closed Joint Stock Company Yapi Kredi Bank Azerbaijan
YAPI KREDİ BANK AZƏRBAYCAN
Yapı Kredi Bank Azərbaycan Qapalı Səhmdar Cəmiyyəti

30 May 2025

Baku, Azerbaijan

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

For the year ended 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	*2024*	*2023*
Interest income calculated using the effective interest rate	19	44,831	31,899
Interest and other similar expense	19	(7,797)	(2,873)
Net interest income		**37,034**	**29,026**
Credit loss allowance recovery, net	18	1,087	2,417
Net interest income after credit loss allowance		**38,121**	**31,443**
Fee and commission income	20	16,557	13,104
Fee and commission expense	20	(12,337)	(9,595)
Gains less losses from modification of financial assets		(37)	10
Net (losses) on initial recognition of financial instruments		(32)	–
Net gains from operations in foreign currencies:		7,061	6,297
Other operating income		261	76
Operating expenses	21	(31,932)	(30,120)
Other impairment and provisions, net		25	(842)
		(20,434)	**(21,070)**
Profit before income tax expense		**17,687**	**10,373**
Income tax expense	12	(3,529)	(3,249)
Net profit for the year		**14,158**	**7,124**
Other comprehensive income for the year:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealized gain on debt securities at FVOCI		410	–
Income tax relating to components of other comprehensive income to be reclassified to profit or loss in subsequent periods	12	(82)	–
Other comprehensive income for the year, net of tax		**328**	**–**
Total comprehensive income for the year		**14,486**	**7,124**

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Share capital	*Unrealized gain/loss reserve*	*Retained earnings*	*Other reserves*	*Total equity*
As at 1 January 2023	**55,381**	**–**	**39,990**	**180**	**95,551**
Net profit for the year	–	–	7,124	–	7,124
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**7,124**	**–**	**7,124**
As at 31 December 2023	**55,381**	**–**	**47,114**	**180**	**102,675**
Net profit for the year	–	–	14,158	–	14,158
Other comprehensive income for the year	–	328	–	–	328
Total comprehensive income for the year	**–**	**328**	**14,158**	**–**	**14,486**
As at 31 December 2024	**55,381**	**328**	**61,272**	**180**	**117,161**

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

Statement of cash flows

As at 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	*2024*	*2023*
Cash flows from operating activities			
Interest received		43,675	29,551
Interest paid		(8,462)	(3,089)
Fees and commissions received		16,516	12,973
Fees and commissions paid		(12,337)	(9,595)
Income received from trading in foreign currencies		7,109	6,315
Other income received		274	76
Personnel expenses paid		(14,810)	(14,250)
Other operating expenses paid		(10,235)	(9,515)
Cash flows from operating activities before changes in operating assets and liabilities		**21,730**	**12,466**
Net (increase)/decrease in operating assets:			
Amounts due from credit institutions		4,295	(28,360)
Loans to customers		(24,958)	(54,486)
Other assets		(1,178)	(663)
Net increase/(decrease) in operating liabilities:			
Amounts due to banks and government funds		11,055	8,237
Amounts due to customers		191,534	5,498
Other liabilities		(888)	3,555
Net cash flows from/(used in) operating activities before income tax		**201,590**	**(53,753)**
Income tax paid		(6,328)	(2,817)
Net cash from/(used in) operating activities		**195,262**	**(56,570)**
Cash flows from investing activities			
Purchase of investment securities		(50,822)	(96,212)
Proceeds from sale and redemption of investment securities		48,617	79,276
Purchase of property and equipment	9	(2,994)	(2,508)
Purchase of intangible assets	10	(4,726)	(2,321)
Net cash used in investing activities		**(9,925)**	**(21,765)**
Cash flows from financing activities			
Repayment of principal of lease liabilities	11	(1,750)	(2,307)
Net cash used in financing activities		**(1,750)**	**(2,307)**
Effect of exchange rates changes on cash and cash equivalents		48	(18)
Net increase/(decrease) in cash and cash equivalents		**183,635**	**(80,660)**
Cash and cash equivalents, at the beginning of the year		103,534	184,194
Cash and cash equivalents, at the end of the year	5	**287,169**	**103,534**

As per Bank policy cash and cash equivalents include notes issued by the Central Bank of Azerbaijan Republic (below 90 days original maturity date) amounted AZN Nil at 31 December 2024 (2023: AZN 9,972).

The accompanying notes on pages 5 to 44 are an integral part of these Financial Statements.

(Amounts presented are in thousands of Azerbaijani manats)

1 Principal Activities

The Bank was incorporated and is domiciled in the Republic of Azerbaijan. Yapi Kredi Bank Azerbaijan is a closed joint-stock company limited by shares and was set up in accordance with Azerbaijani regulations.

The Bank's principal business activity is commercial and retail banking operations within the Republic of Azerbaijan. The Bank has operated under a full banking license issued by the Central Bank of the Republic of Azerbaijan (the "CBAR") since 11 January 2000 under registration number 243.

The Bank participates in the state deposit insurance scheme, which was introduced by the Azeri Law, "Insurance of individual deposits in the Republic of Azerbaijan" dated 29 December 2006. Azerbaijan Deposit Insurance Fund fully guarantees deposits up to AZN 100 for a period of three years in local currency with an interest rate up to 12% (2023: 12%), as well as deposits up to AZN 100 equivalent in foreign currency with an interest rate up to 2.5% (2023: 2.5%).

The Bank's registered address and principal place of business is 73G Jalil Mammadguluzadeh street Baku, AZ1078, Azerbaijan.

The Bank has 8 branches (2023: 8 branches), 1 customer services unit (2023: 1 unit) within the Republic of Azerbaijan. The Bank had 249 employees at 31 December 2024 (31 December 2023: 270).

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

Shareholder	***2024, %***	***2023, %***
Yapı ve Kredi Bankası A.Ş.	99.8	99.8
YK Yatirim Menkul Degerler A.Ş.	0.1	0.1
YK Lease A.Ş.	0.1	0.1
Total	**100.0**	**100.0**

Yapı ve Kredi Bankası A.Ş. ("YKB"), an entity established in Turkey, is the direct parent of the Bank. YKB's shares have been traded on the Istanbul Stock Exchange ("ISE") since 1987. As of 31 December 2024, 32.03% of the shares of the "YKB" are publicly traded (2023: 32.03%).

40.95% shares out of the remaining 67.97% is owned by Koç Finansal Hizmetler A.Ş. ("KFS") which is owned by Koç Group, and 27.02% is owned by Koç Holding A.Ş..

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

2 Basis of Preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards. The Bank has prepared the financial statements on the basis that it will continue to operate as a going concern.

The Azerbaijani manat is the functional and presentation currency of Yapi Kredi Bank Azerbaijan as the majority of the transactions are denominated, measured, or funded in Azerbaijani manat. 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 Azerbaijani manat and in accordance with IFRS. These financial statements are presented in thousands of Azerbaijani manat ("AZN"), except when otherwise indicated. These financial statements have been prepared under the historical cost convention except as disclosed in the material accounting policies, for certain investment securities at FVOCI and derivative financial instruments which have been measured at fair value.

(Amounts presented are in thousands of Azerbaijani manats)

3 Material Accounting Policy Information

New and amended standards and interpretations

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2024.

The following amendments became effective for annual periods beginning on 1 January 2024:

- *Supplier Finance Arrangements* − Amendments to IAS 7 and IFRS 7;
- Amendments to IFRS 16: *Lease Liability in a Sale and Leaseback;*
- Amendments to IAS 1: *Classification of Liabilities as Current or Non−current.*

The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed be low. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS 7

On 30 May 2024, the IASB issued Amendments to IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments (the Amendments). The Amendments include:

- A clarification that a financial liability is derecognised on the 'settlement date' and introduce an accounting policy choice (if specific conditions are met) to derecognise financial liabilities settled using an electronic payment system before the settlement date;
- Additional guidance on how the contractual cash flows for financial assets with environmental, social and corporate governance (ESG) and similar features should be assessed;
- Clarifications on what constitute 'non−recourse features' and what are the characteristics of contractually linked instruments;
- The introduction of disclosures for financial instruments with contingent features and additional disclosure requirements for equity instruments classified at fair value through other comprehensive income (OCI).

The Amendments are effective for annual periods starting on or after 1 January 2026. Early adoption is permitted, with an option to early adopt the amendments for classification of financial assets and related disclosures only. The Bank is currently not intending to early adopt the Amendments.

With respect to the amendments on the derecognition of financial liabilities that are settled through an electronic payment system, the Bank is currently performing an assessment of all material electronic payment systems utilised in the various jurisdictions it operates, in order to assess whether the amendments will result in a material change with respect to current practices and whether it meets the conditions to apply the accounting policy option to derecognise such financial liabilities before the settlement date. Moreover, the Bank is reviewing all its other payment systems (such as cheques, credit cards, debit cards) to ensure that the corresponding financial assets are derecognised when the right to cash flows are extinguished and that the corresponding financial liabilities are derecognised on settlement date.

In addition, the Bank is assessing the impact of the Amendments on its financial assets that include environmental, social and governance (ESG)−linked features and other similar contingent features, as well as on non−recourse financing and contractually linked instruments. Based on the initial assessment performed, the amendments in these areas are not expected to have a material impact on the financial statements, however, the assessment is yet to be concluded.

IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements*, which replaces IAS 1 *Presentation of Financial Statements.* IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of profit or loss into one of five categories: operating, investing, financing, income taxes and discontinued operations, whereof the first three are new. There are specific presentation requirements and options for entities that have specified main business activities (either providing finance to customers or investing in specific type of assets, or both).

(Amounts presented are in thousands of Azerbaijani manats)

3 Material Accounting Policies (continued)

Standards issued but not yet effective (continued)

IFRS 18 Presentation and Disclosure in Financial Statements

It also requires disclosure of newly defined management−defined performance measures, which are subtotals of income and expenses, and includes new requirements for aggregation and disaggregation of financial information based on the identified ‘roles’ of the primary financial statements and the notes.

Narrow−scope amendments have been made to IAS 7 Statement of Cash Flows, which include changing the starting point for determining cash flows from operations under the indirect method, from ‘profit or loss’ to ‘operating profit or loss’ and removing the optionality around classification of cash flows from dividends and interest. In addition, there are consequential amendments to several other standards.

IFRS 18, and the amendments to the other standards, are effective for reporting periods beginning on or after 1 January 2027, but earlier application is permitted and must be disclosed. IFRS 18 will apply retrospectively. The Bank is currently working to identify all impacts the amendments will have on the financial statements and notes to them.

Fair value measurement

The Bank measures financial instruments carried at FVPL and FVOCI at fair value at each balance sheet date.

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.

For assets and liabilities that are recognized 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 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 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 one of:

- Amortised cost;
- FVOCI; or
- FVPL.

Amounts due from credit institutions, loans to customers, investment securities at amortised cost

The Bank only measures amounts due from credit institutions, loans to customers and other financial investments at amortised 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.

(Amounts presented are in thousands of Azerbaijani manats)

3 Material Accounting Policies (continued)

Financial assets and liabilities (continued)

Business model assessment

The Bank determines its business model at the level that best reflects how it manages Bank's of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/ discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL

Debt instruments at FVOCI

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 recognized in OCI. Interest revenue and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

Expected credit losses for debt instruments at FVOCI

The ECLs 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 recognized in OCI is recycled to the profit and loss upon derecognition of the asset.

(Amounts presented are in thousands of Azerbaijani manats)

3 Material Accounting Policies (continued)

Financial assets and liabilities (continued)

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 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 other comprehensive income 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. Such commitments are initially recognised 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. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Provision for Performance guarantees are measured consistent with the measurement of expected credit losses under 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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBAR, excluding mandatory reserves, highly liquid investment securities with a maturity of below 3 months and amounts due from credit institutions with due on demand or up to 3 months from the date of origination and that are free from contractual encumbrances.

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.

(Amounts presented are in thousands of Azerbaijani manats)

3 Material Accounting Policies (continued)

Leases (continued)

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 determined. 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 measured 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

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 AZN 1 thousand). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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 POCI. Restructuring of impaired loans does not result in derecognition of financial instrument. 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, presented within interest income calculated using EIR in the statement of profit or loss, to the extent that an impairment loss has not already been recorded.

(Amounts presented are in thousands of Azerbaijani manats)

3 Material Accounting Policies (continued)

Derecognition of financial assets and liabilities

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.

Taxation

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability 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 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 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.

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 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 tax are also recognised in other comprehensive income or directly in equity, respectively.

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 property and 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, including construction in progress, begins when it is ready and available for use. Depreciation is calculated on a straight−line basis over the following estimated useful lives

	Years
Furniture and fixtures	10
Computers and office equipment	10
Motor vehicles	10
Leasehold improvements	4-15 (but not longer than respective lease period)

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Repossessed collateral

In certain circumstances, collateral is repossessed following the foreclosure on loans that are in default. Repossessed collateral is measured at the lower of the carrying amount and net realisable value and reported within "Other assets".

(Amounts presented are in thousands of Azerbaijani manats)

3 Material Accounting Policies (continued)

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

Provisions are recognised 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.

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 and other contributions made by shareholders are recognised as additional paid-in capital.

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 and expense is recognised.

Interest and similar income and expense

The Bank calculates interest revenue 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 amortised 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 amortised cost of the asset. The credit−adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in “Other interest revenue” in the statement of profit or loss.

Fee and commission income

The Bank earns fee and commission income from several types of services it provides to its customers. Fee income can be divided into the following two categories:

(Amounts presented are in thousands of Azerbaijani manats)

3 Material Accounting Policies (continued)

Recognition of income and expenses (continued)

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income on guarantees and letters of credit. 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 recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party − such as where the Bank’s performance obligation is the arrangement of the acquisition of shares or other securities − are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognised to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur until the uncertainty associated with the variable consideration is subsequently resolved. Revenue is recognised when the Bank’s right to receive the payment is established.

Foreign currency translation

The financial statements are presented in AZN, 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 current year profit 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 less losses from dealing in foreign currencies.

The Bank used the following official exchange rates at 31 December 2024 and 2023, in the preparation of these financial statements:

	2024	*2023*
1 US dollar	AZN 1.7000	AZN 1.7000
1 Euro	AZN 1.7724	AZN 1.8776

4 Significant Accounting Judgments and Estimates

In the process of applying the Bank’s accounting policies, management has made the following judgments and made estimates which have affected the amounts recognized 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*.

(Amounts presented are in thousands of Azerbaijani manats)

4 Significant Accounting Judgments and Estimates (continued)

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:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing whether there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life time 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 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 *Note 22.*

Leases − estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay, which requires estimation when no observable rates are available (for example, when the Bank does not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the Bank's functional currency).

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Bank's credit rating).

Taxation

Tax legislation in the Republic of Azerbaijan is subject to varying interpretations, and changes can occur occasionally. Management believes that as at 31 December 2024 and 2023 its interpretation of the relevant legislation is appropriate and that the Bank's tax position will be sustained.

5 Cash and cash equivalents

As at 31 December, cash and cash equivalents comprise:

	2024	*2023*
Cash on hand	15,052	14,681
Current accounts with the CBAR	13,057	328
Short-term deposits placed in the CBAR	141,073	46,017
Current accounts and overnight placements with other credit institutions	118,308	32,740
Cash and cash equivalents (gross)	**287,490**	**93,766**
Less: allowances for expected credit losses	(321)	(204)
Cash and cash equivalents (net)	**287,169**	**93,562**

As at 31 December 2024, current accounts and overnight placements with other credit institutions consist of interest-bearing correspondent account balance with one non-resident bank in amount of AZN 82,558 (31 December 2023: AZN 23,051) and overnight placement with the resident and non-resident banks in amount of AZN 9,983 (31 December 2023: AZN 1,687). The remaining balance in the amount of AZN 25,767 (31 December 2023: AZN 8,002) consists of non-interest-bearing correspondent accounts with resident and non-resident banks.

As at 31 December 2024 and 2023, all balances of cash equivalents and ECL relating to cash equivalents are allocated to Stage 1

(Amounts presented are in thousands of Azerbaijani manats)

6 Amounts Due from Credit Institutions

As at 31 December, amounts due from credit institutions comprise:

	2024	*2023*
Mandatory reserve with the CBAR	22,140	16,480
Long-term loans to banks	7,893	–
Short-term loans to banks	7,144	24,679
Time deposits with credit institutions for more than 3 months	7,030	7,135
Amounts due from credit institutions (gross)	**44,207**	**48,294**
Less: allowance for expected credit losses	(314)	(388)
Amounts due from credit institutions (net)	**43,893**	**47,906**

As at 31 December 2024, the Bank had outstanding long-term loan in the amount of AZN 7,893 issued to one non-resident bank (2023: nil).

As at 31 December 2024, the Bank had outstanding short-term loans in the amount of AZN 7,144 issued to one non-resident bank (31 Dec 2023: AZN 24,679, issued to four non-resident banks).

As at 31 December 2024, time deposits with credit institutions consist of interest-bearing short-term deposits placed in one non-resident bank (31 December 2023:one non-resident bank) in the amount of AZN 7,030 (31 December 2023: AZN 7,135) maturing in June 2025 (31 December 2023: February 2024).

As at 31 December 2024, credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBAR as per following differentiation criteria:

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

Since the Bank`s average deposits from legal entities in local currency are less than AZN 1,000,000, the proportion of connected deposits are less than 20% and the segment of Bank-related deposits falls under 20% of total deposits, the applicable mandatory reserve rate was 5% (31 December 2023: 4%) for deposits in local currency as of 31 December 2024.

For foreign currency deposits mandatory reserve rate was 6% (31 December 2023: 5%) since the Bank’s average deposits from legal entities in foreign currency are less than AZN 750,000 and Bank-related deposits falls under 20% of total deposits as of 31 December 2024.

The Bank's ability to withdraw such deposits is restricted by statutory legislation.

As of 31 December 2024, and 2023, all balances of amounts due from credit institutions and ECL relating to amounts due from credit institutions are allocated to Stage 1.

7 Investment securities

As at 31 December, investment securities comprise:

	2024	*2023*
Debt securities at amortized cost		
Notes issued by the Central Bank of the Republic of Azerbaijan)	–	53,529
Bonds issued by the Ministry of Finance of Azerbaijan Republic	25,295	32,323
Less: allowance for expected credit losses	(21)	(250)
	25,274	**85,602**
Debt securities at FVOCI		
Bonds issued by the Ministry of Finance of Azerbaijan Republic	40,692	–
Corporate bonds	11,518	–
	52,210	**–**
Equity securities at FVOCI		
Corporate shares	240	240
	240	**240**
Investment securities	**77,724**	**85,842**

(Amounts presented are in thousands of Azerbaijani manats)

7 Investment securities (continued)

As at 31 December 2024, the corporate bonds comprise bonds issued in Azerbaijan in the amounts of AZN 11,518 (2023: Nil).

As at 31 December 2024 and 2023, the corporate shares comprise ordinary shares of Baku Stock Exchange at fair market values of AZN 240 (2023: AZN 240).

As of 31 December 2024, and 2023, all balances of debt securities and ECL relating to debt securities are allocated to Stage 1. The movements in allowances for expected credit losses under IFRS 9 of debt securities during the year ended 31 December 2024 and 31 December 2023 were insignificant.

8 Loans to customers

As of 31 December, loans to customers comprise:

	2024	***2023***
Loans issued to commercial entities	185,271	183,256
Loans to small and medium-sized enterprises	11,302	14,349
Consumer Loans	83,129	69,309
Residential Mortgage loans	47,484	35,128
Loans to customers (gross)	**327,186**	**302,042**
Less: allowance for expected credit losses	(27,415)	(28,979)
Loans to customers	**299,771**	**273,063**

Loans have been extended to the following types of customers:

	2024	***2023***
Private companies	185,271	183,256
Individuals	141,915	118,786
Loans to customers (gross)	**327,186**	**302,042**

Economic sector risk concentrations within the loan portfolio as at 31 December are as follows:

	2024	***2023***
Individuals	141,601	118,786
Trading enterprises	125,400	104,003
Real estate construction	33,766	51,648
Manufacturing	26,419	27,605
Gross loans to customers	**327,186**	**302,042**

As at 31 December 2024, the Bank had a concentration of loans represented by AZN 75,662 or 23% of gross loan portfolio (2023: AZN 72,739 or 24%) due from ten (2023: ten) largest borrowers of the Bank. An allowance of AZN 352 (2023: AZN 331) was recognized against these loans.

(Amounts presented are in thousands of Azerbaijani manats)

8 Loans to customers (continued)

An analysis of changes in the gross carrying value and corresponding credit loss allowance in relation to loans issued to commercial entities during the year ended 31 December 2024 and 2023 is as follows:

	Gross carrying amount				*Credit loss allowance*			
Commercial entities	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***
At 31 December 2023	**159,715**	**2,050**	**21,491**	**183,256**	**726**	**165**	**13,375**	**14,266**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(428)	428	-	-	(2)	2	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(544)	(106)	650	-	(2)	(8)	10	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	20	(20)	-	-	-	-	-	-
Net Remeasurement of ECL	-	-	-	-	-	(8)	(1,009)	(1,017)
New originated or purchased	142,205	-	-	142,205	662	253	-	915
Fully repaid during the period	(131,270)	(289)	(726)	(132,285)	(626)	(151)	(522)	(1,299)
Changes in accrued interest	-	-	628	628	-	-	321	321
Partially repaid during the period	(7,393)	-	(21)	(7,414)	-	-	(16)	(16)
Modification of contractual cash flows	-	-	-	-	-	5	(69)	(64)
Total movements with impact on credit loss allowance charge for the period	**2,590**	**13**	**531**	**3,134**	**32**	**93**	**(1,285)**	**(1,160)**
Movements without impact on credit loss allowance charge for the period:								
Unwinding of discount (recognised in interest revenue)	–	–	–	–	–	–	1,077	1,077
Write-offs	–	–	(1,119)	(1,119)	–	–	(1,119)	(1,119)
At 31 December 2024	**162,305**	**2,063**	**20,903**	**185,271**	**758**	**258**	**12,048**	**13,064**

	Gross carrying amount				*Credit loss allowance*			
Commercial entities	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***
At 31 December 2022	**133,787**	**560**	**33,838**	**168,185**	**620**	**77**	**20,854**	**21,551**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(2,824)	2,824	–	–	(28)	28	–	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	–	(1,057)	1,057	–	–	(1)	1	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	535	–	(535)	–	1	–	(1)	–
Net measurement of ECL	–	–	–	–	–	109	729	838
New originated or purchased	250,034	–	–	250,034	1,091	–	–	1,091
Fully repaid during the period	(204,948)	–	(3,310)	(208,258)	(897)	–	(1,521)	(2,418)
Changes in accrued interest	96	(13)	(1,508)	(1,425)	3	(5)	(918)	(920)
Partially repaid during the period	(16,965)	(264)	(2,066)	(19,295)	(64)	(43)	(814)	(921)
Total movements with impact on credit loss allowance charge for the period	**25,928**	**1,490**	**(6,362)**	**21,056**	**106**	**88**	**(2,524)**	**(2,330)**
Movements without impact on credit loss allowance charge for the period:	–	–	–	–	–	–	–	–
Unwinding of discount (recognised in interest revenue)	–	–	–	–	–	–	1,030	1,030
Write-offs	–	–	(5,985)	(5,985)	–	–	(5,985)	(5,985)
At 31 December 2023	**159,715**	**2,050**	**21,491**	**183,256**	**726**	**165**	**13,375**	**14,266**

(Amounts presented are in thousands of Azerbaijani manats)

8 Loans to customers (continued)

An analysis of changes in the gross carrying value and corresponding credit loss allowance in relation to loans issued to small and medium-sized enterprises during the year ended 31 December 2024 and 2023 is as follows:

	Gross carrying amount				*Credit loss allowance*			
SME	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***
At 31 December 2023	**5,129**	**14**	**9,206**	**14,349**	**69**	**4**	**6,297**	**6,370**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(7)	7	–	–	(1)	1	–	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	–	–	–	–	–	–	–	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	20	(20)	–	–	1	(1)	–	–
Net Remeasurement of ECL	–	–	–	–	–	–	(1,353)	(1,353)
New originated or purchased	2,799	–	–	2,799	32	–	–	32
Fully repaid during the period	(2,527)	–	(635)	(3,162)	(35)	–	(424)	(459)
Changes in accrued interest	–	6	556	562	–	(3)	–	(3)
Partially repaid during the period	(1,603)	–	–	(1,603)	(23)	–	–	(23)
Modification of contractual cash flows	–	–	–	–	–	–	(9)	(9)
Total movements with impact on credit loss allowance charge for the period	**(1,318)**	**(7)**	**(79)**	**(1,404)**	**(26)**	**(3)**	**(1,786)**	**(1,815)**
Movements without impact on credit loss allowance charge for the period:								
Unwinding of discount (recognised in interest revenue)	–	–	–	–	–	–	908	908
Write-offs	–	–	(1,643)	(1,643)	–	–	(1,643)	(1,643)
At 31 December 2024	**3,811**	**7**	**7,484**	**11,302**	**43**	**1**	**3,776**	**3,820**

	Gross carrying amount				*Credit loss allowance*			
SME	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***
At 31 December 2022	**3,644**	**–**	**11,301**	**14,945**	**39**	**–**	**7,843**	**7,882**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(19)	19	–	–	(5)	5	–	–
Net measurement of ECL	–	–	–	–	–	–	114	114
New originated or purchased	9,098	–	–	9,098	59	–	–	59
Fully repaid during the period	(6,436)	–	(257)	(6,693)	(18)	–	(142)	(160)
Changes in accrued interest	2	–	(239)	(237)	–	–	(175)	(175)
Partially repaid during the period	(1,160)	(5)	(184)	(1,349)	(5)	(1)	(168)	(174)
Total movements with impact on credit loss allowance charge for the period	**1,485**	**14**	**(680)**	**819**	**30**	**4**	**(371)**	**(337)**
Movements without impact on credit loss allowance charge for the period:								
Unwinding of discount (recognised in interest revenue)							240	240
Write-offs	–	–	(1,415)	(1,415)	–	–	(1,415)	(1,415)
At 31 December 2023	**5,129**	**14**	**9,206**	**14,349**	**69**	**4**	**6,297**	**6,370**

(Amounts presented are in thousands of Azerbaijani manats)

8 Loans to customers (continued)

An analysis of changes in the gross carrying value and corresponding credit loss allowance in relation to consumer loans during the year ended 31 December 2024 and 2023 is as follows:

	Gross carrying amount				*Credit loss allowance*			
Consumer loans	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***
At 31 December 2023	**59,269**	**1,677**	**8,363**	**69,309**	**421**	**234**	**6,386**	**7,041**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(1,412)	1,412	–	–	(12)	12	–	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(584)	(466)	1,050		(4)	(69)	73	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	144	(144)	–	–	1	(1)	–	–
Net remeasurement of ECL	–	–	–	–	–	154	1,341	1,495
New originated or purchased	42,031	–	–	42,031	316	–	–	316
Fully repaid during the period	(16,769)	(219)	(99)	(17,087)	(123)	(83)	(95)	(301)
Changes in accrued interest	–	420	701	1,121	–	112	496	608
Partially repaid during the period	(11,303)	(480)	(226)	(12,009)	(86)	(13)	(154)	(253)
Modification of contractual cash flows	–	–	–	–	(1)	24	16	39
Total movements with impact on credit loss allowance charge for the period	**12,107**	**523**	**1,426**	**14,056**	**91**	**136**	**1,677**	**1,904**
Movements without impact on credit loss allowance charge for the period:								
Unwinding of discount (recognised in interest revenue)	–	–	–	–			224	224
Write-offs	–	–	(236)	(236)			(236)	(236)
At 31 December 2024	**71,376**	**2,200**	**9,553**	**83,129**	**512**	**370**	**8,051**	**8,933**

	Gross carrying amount				*Credit loss allowance*			
Consumer loans	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***
At 31 December 2022	**35,552**	**1,746**	**10,235**	**47,533**	**231**	**241**	**7,581**	**8,053**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(1,364)	1,364	–	–	(57)	57	–	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	–	(537)	537	–	–	(46)	46	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	208	(207)	(1)	–	11	(10)	(1)	–
Net measurement of ECL	–	–	–	–	–	65	410	475
New originated or purchased	63,849	–	–	63,849	456	–	–	456
Fully repaid during the period	(30,573)	(269)	(526)	(31,368)	(161)	(34)	(345)	(540)
Changes in accrued interest	104	–	82	186	–	–	57	57
Partially repaid during the period	(8,507)	(420)	(889)	(9,816)	(59)	(39)	(737)	(835)
Total movements with impact on credit loss allowance charge for the period	**23,717**	**(69)**	**(797)**	**22,851**	**190**	**(7)**	**(570)**	**(387)**
Movements without impact on credit loss allowance charge for the period:	–	–	–	–	–	–	–	–
Unwinding of discount (recognised in interest revenue)	–	–	–	–	–	–	450	450
Write-offs	–	–	(1,075)	(1,075)	–	–	(1,075)	(1,075)
At 31 December 2023	**59,269**	**1,677**	**8,363**	**69,309**	**421**	**234**	**6,386**	**7,041**

(Amounts presented are in thousands of Azerbaijani manats)

8 Loans to customers (continued)

An analysis of changes in the gross carrying value and corresponding credit loss allowance in relation to residential mortgage loans during the year ended 31 December 2024 and 2023 is as follows:

	Gross carrying amount				*Credit loss allowance*			
Residential mortgage loans	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***
At 31 December 2023	**33,567**	**192**	**1,369**	**35,128**	**128**	**58**	**1,116**	**1,302**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(194)	194	–	–	(1)	1	–	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(139)	–	139	–	(1)	–	1	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	81	(81)	–	–	1	(1)	–	–
Net remeasurement of ECL	–	–	–	–	–	10	103	113
New originated or purchased	16,046	–	–	16,046	60	–	–	60
Fully repaid during the period	(1,473)	–	(64)	(1,537)	(6)	–	(45)	(51)
Changes in accrued interest	–	–	234	234	–	–	56	56
Partially repaid during the period	(2,288)	(5)	–	(2,293)	(11)	(2)	–	(13)
Modification of contractual cash flows	–	–	–	–	–	–	4	4
Total movements with impact on credit loss allowance charge for the period	**12,033**	**108**	**309**	**12,450**	**42**	**8**	**119**	**169**
Movements without impact on credit loss allowance charge for the period:								
Unwinding of discount (recognised in interest revenue)	–	–	–	–	–	–	221	221
Write-offs	–	–	(94)	(94)	–	–	(94)	(94)
At 31 December 2024	**45,600**	**300**	**1,584**	**47,484**	**170**	**66**	**1,362**	**1,598**

	Gross carrying amount				*Credit loss allowance*			
Residential mortgage loans	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***	***Stage 1 (12-months ECL)***	***Stage 2 (lifetime ECL for SICR)***	***Stage 3 (lifetime ECL for credit im-paired)***	***Total***
At 31 December 2022	**20,810**	**463**	**1,727**	**23,000**	**167**	**266**	**1,349**	**1,782**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	177	(177)	–	–	1	(1)	–	–
Net measurement of ECL	–	–	–	–	–	(106)	(170)	(276)
New originated or purchased	15,851	–	–	15,851	61	–	–	61
Fully repaid during the period	(1,980)	(86)	(8)	(2,074)	(9)	(32)	(7)	(48)
Changes in accrued interest	58	–	–	58	(1)	–	–	(1)
Partially repaid during the period	(1,349)	(8)	(87)	(1,444)	(91)	(69)	(56)	(216)
Total movements with impact on credit loss allowance charge for the period	**12,757**	**(271)**	**(95)**	**12,391**	**(39)**	**(208)**	**(233)**	**(480)**
Movements without impact on credit loss allowance charge for the period:	–	–	–		–	–	–	–
Unwinding of discount (recognised in interest revenue)	–	–			–	–	263	263
Write-offs	–	–	(263)	(263)	–	–	(263)	(263)
At 31 December 2023	**33,567**	**192**	**1,369**	**35,128**	**128**	**58**	**1,116**	**1,302**

(Amounts presented are in thousands of Azerbaijani manats)

8 Loans to customers (continued)

Modified and restructured loans

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.

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, to the extent that an impairment loss has not already been recorded.

The modification relating to assets of the Bank that were modified rounds to zero in both years.

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 lending − charges over real estate and trade receivables, third party guarantees;
- For consumer lending − cash, charges over credited consumer appliances and mortgages over residential properties;
- For auto lending − cash and liens over vehicles.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

The Bank calculates LGD rate of several corporate and small lending loans in Stage 3 using discounted value of collaterals. As at 31 December 2024, maximum exposure of such loans amounted to AZN 20,375 (2023: AZN 25,591) for which ECL of AZN 9,662 (2023: AZN 15,772) was recognized. If these loans were not collateralized, ECL amount for these loans would be AZN 19,573 (2023: AZN 23,529) based on collective assessment.

(Amounts presented are in thousands of Azerbaijani manats)

9 Property and equipment

The movements in property and equipment were as follows:

	Leasehold improvements	*Computers and office equipment*	*Furniture and fixtures*	*Motor vehicles*	*Total*
Cost					
1 January 2023	**1,172**	**17,368**	**2,056**	**176**	**20,772**
Additions	85	2,284	139	–	**2,508**
Disposals	(547)	(246)	(10)	(20)	**(823)**
31 December 2023	**710**	**19,406**	**2,185**	**156**	**22,457**
Additions	169	2,679	131	15	**2,994**
Disposals	–	(1,970)	(91)	–	**(2,061)**
December 2024	**879**	**20,115**	**2,225**	**171**	**23,390**
Accumulated depreciation					
1 January 2023	**(995)**	**(14,514)**	**(1,843)**	**(79)**	**(17,431)**
Depreciation charge	(92)	(1,145)	(76)	(39)	**(1,352)**
Disposals	546	231	8	20	**805**
31 December 2023	**(541)**	**(15,428)**	**(1,911)**	**(98)**	**(17,978)**
Depreciation charge	(65)	(1,268)	(80)	(30)	**(1,443)**
Disposals	–	1,969	89	–	**2,058**
December 2024	**(606)**	**(14,727)**	**(1,902)**	**(128)**	**(17,363)**
Net book value					
31 December 2022	**177**	**2,854**	**213**	**97**	**3,341**
31 December 2023	**169**	**3,978**	**274**	**58**	**4,479**
December 2024	**273**	**5,388**	**323**	**43**	**6,027**

As at 31 December 2024, property and equipment amounting to AZN 12,679 (2023: AZN 14,154) were fully depreciated but in use.

As at 31 December 2024, property and equipment contained items in the warehouse amounting to AZN 692 (2023: AZN 546).

10 Intangible assets

The movements in property and equipment were as follows:

	Licenses	*Computer software*	*Total*
Cost			
1 January 2023	**13,761**	**14,884**	**28,645**
Additions	1,005	1,316	**2,321**
31 December 2023	**14,766**	**16,200**	**30,966**
Additions	1,356	3,370	**4,726**
31 December 2024	**16,122**	**19,570**	**35,692**
Accumulated amortization			
1 January 2023	**(12,873)**	**(8,300)**	**(21,173)**
Amortization charge	(1,218)	(1,331)	**(2,549)**
31 December 2023	**(14,091)**	**(9,631)**	**(23,722)**
Amortization charge	(1,021)	(1,291)	**(2,312)**
31 December 2024	**(15,112)**	**(10,922)**	**(26,034)**
Net book value			
31 December 2022	**888**	**6,584**	**7,472**
31 December 2023	**675**	**6,569**	**7,244**
31 December 2024	**1,010**	**8,648**	**9,658**

As at 31 December 2024, intangible assets amounting to AZN 18,213 (31 December 2023: AZN 16,456) were fully amortised but in use.

(Amounts presented are in thousands of Azerbaijani manats)

11 Right of use assets and lease liabilities

The movements in right-of-use assets were as follows:

	2024	*2023*
As at 1 January	**10,744**	**10,014**
Additions	295	1,236
Lease modifications	5,275	1,915
Depreciation charge	(2,285)	(2,421)
As at 31 December	**14,029**	**10,744**

The movements in lease liabilities were as follows:

	2024	*2023*
As at 1 January	**10,871**	**9,954**
Additions	295	1,309
Lease modifications	5,079	1,915
Interest expense	1,188	428
Payments	(2,938)	(2,735)
As at 31 December	**14,495**	**10,871**

12 Income taxes

The corporate income tax expense comprises:

	2024	*2023*
Current income tax charge	(3,979)	(5,076)
Deferred (charge) / benefit – origination of temporary differences	368	1,827
Plus: deferred tax recognized in other comprehensive income	82	–
Income tax expense	**(3,529)**	**(3,249)**

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

	2024	*2023*
Net (gain) / loss on debt instruments designated at fair value through OCI	(82)	0
Income tax charged to other comprehensive income	**(82)**	**0**

Standard corporate income tax rate for companies (including banks) comprised 20% for 2024 and 2023. The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2024	*2023*
Profit before tax	**17,687**	**10,373**
Statutory tax rate	20%	20%
Theoretical tax charge at the statutory tax rate	(3,537)	(2,075)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Impact of non-deductible expenses	(281)	(1,174)
Other	289	
Income tax expense	**(3,529)**	**(3,249)**

(Amounts presented are in thousands of Azerbaijani manats)

12 Income Taxes (continued)

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

	2022	*Credited/ (charged) to profit or loss*	*2023*	*Credited/ (charged) to profit or loss*	*Credited/(charged) to OCI*	*2024*
Tax effect of temporary differences						
Cash and cash equivalents	48	(25)	23	41	–	64
Amounts due from credit institutions	6	52	58	23	–	81
Property and equipment	240	(63)	177	(152)	–	25
Lease Liability	–	2,003	2,003	896	–	2,899
Other liabilities	684	233	917	66	–	983
Deferred tax asset	**978**	**2,200**	**3,178**	**874**	**–**	**4,052**
Investment in debt securities	39	11	50	(69)	(82)	(101)
Amount due to banks and government funds	–	–	–	(200)	–	(200)
Loans to customers	(2,977)	1,235	(1,742)	531	–	(1,211)
Intangible assets	(141)	20	(121)	(5)	–	(126)
Right of use assets	–	(2,003)	(2,003)	(803)	–	(2,806)
Other assets	(594)	364	(230)	122	–	(108)
Deferred tax liability	**(3,673)**	**(373)**	**(4,046)**	**(424)**	**(82)**	**(4,552)**
Net deferred income tax (liabilities)/asset	**(2,695)**	**1,827**	**(868)**	**450**	**(82)**	**(500)**

13 Other assets and liabilities

Other assets comprise:

	2024	*2023*
Other financial assets		
Funds in settlement	6,104	5,950
Derivative financial assets	389	–
	6,493	**5,950**
Other non-financial assets		
Repossessed collateral	2,723	2,807
Prepayments	1,801	1,208
Other	69	174
	4,593	**4,189**
Other assets	**11,086**	**10,139**

All balances of other financial assets are allocated to Stage 1.

The repossessed collaterals are represented by non−financial assets acquired by the Bank in settlement of overdue loans. The repossessed collaterals are recorded at a lower of cost and net realizable value as at the end of year.

Other liabilities comprise:

	2024	*2023*
Other financial liabilities		
Funds in settlement	3,509	4,191
Lease liabilities	14,495	10,871
Other	36	32
	18,040	**15,094**
Other non-financial liabilities		
Payable to employees	3,053	2,197
Payables to local budget	1,728	1,473
Taxes other than income tax	689	371
Deferred income	589	548
Other	1,724	3,509
	7,783	**8,098**
Other liabilities	**25,823**	**23,192**

(Amounts presented are in thousands of Azerbaijani manats)

13 Other Assets and Liabilities (continued)

Payable to employees include bonuses for employees based on the financial performance of the Bank of AZN 2,361 (31 December 2023: AZN 1,466) and an accrual for unused vacations of AZN 692 (31 December 2023: AZN 731).
As at 31 December 2024 and 31 December 2023, deferred income represents deferred revenue which was primarily comprised of fee received for issuance of plastic cards, guarantees and letter of credits.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, 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 notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2024			*31 December 2023*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Swaps	8,500	389	–	–	–	–
Total derivative assets	**8,500**	**389**			**–**	**–**

14 Amounts due to banks and government funds

As at 31 December amounts due to customers include the following:

	2024	*2023*
Amounts due to Azerbaijan Mortgage and Credit Guarantee Fund	33,427	25,485
Amounts due to the Entrepreneurship Development Fund of the Republic of Azerbaijan	2,377	3,518
Short-term loans received from credit institutions	6,041	–
Time deposits	–	2,820
Demand deposits	119	48
Amounts due to banks and government funds	**41,964**	**31,871**

As at 31 December 2024, the Bank had loans refinanced from the Azerbaijan Mortgage and Credit Guarantee Fund amounting to AZN 33,427 (31 December 2023: AZN 25,485) maturing through 2054 (31 December 2023: 2053) and bearing interest rate of 1.0% and 4.0% (31 December 2023: 1-4% p.a.).The loans have been granted to borrowers at interest rate not higher than 8.0% (31 December 2023: not higher than 8.0%).

The Bank had loans received from the Entrepreneurship Development Fund of the Republic of Azerbaijan amounting to AZN 2,377 (31 December 2023: AZN 3,518 thousand), and with the annual interest rate of 1.0% (31 December 2023: 1.0%) maturing through November 2027 (31 December 2023: through September 2026). The loans were acquired for the purposes of assistance in gradually improving entrepreneurship environment in Azerbaijan under the government program. The loans have been granted to local entrepreneurs at interest rate not higher than 5.0% (31 December 2023: not higher than 5.0%).

As at 31 December 2024, short term loans received from credit institutions include AZN 6,041 (31 December 2023: nil) loan from one resident bank.

15 Amounts due to customers

As at 31 December amounts due to customers include the following:

	2024	*2023*
Current accounts	432,517	316,350
Term deposits	131,067	55,026
Amounts due to customers	**563,584**	**371,376**
Held as security against guarantees and letters of credit *(Note 17)*	16,040	11,126

(Amounts presented are in thousands of Azerbaijani manats)

15 Amounts due to customers (continued)

Amounts due to customers include accounts with the following types of customers as at 31 December:

	2024	***2023***
Private enterprises	446,206	271,760
Individuals	115,091	96,993
Public organizations	2,287	2,623
Amounts due to customers	**563,584**	**371,376**

An analysis of customer accounts by economic sector as at 31 December is as follows:

	2024	***2023***
Trade	425,623	257,369
Individuals	115,091	96,993
Transport and communication	9,368	8,242
Insurance and other financial institutions	8,483	4,207
Real estate constructions	2,732	1,942
State and public organizations	2,287	2,623
Amounts due to customers	**563,584**	**371,376**

As at 31 December 2024, amounts due to customers of AZN 269,976 or 48% (31 December 2023: AZN 145,345 or 39%) of total amounts due to customers were due to ten (31 December 2023: ten) largest customers.

16 Equity

As at 31 December 2024 and 2023, the Bank’s share capital is represented by ordinary shares. Issued and fully paid up capital comprised of 2,769,035,194 (2023: 2,769,035,194) ordinary shares with the nominal amount of 0.02 Azerbaijani Manats (not in thousand) per share and rank equally. Each ordinary share carries one vote .

As at 31 December 2024 and 2023, the balance of share capital is AZN 55,381.

No dividents were declaired and paid by the Bank for the year ended 31 December 2024 (2023: no dividends)

	2024	***2023***
Number of outstanding ordinary shares	2,769,035,194	2,769,035,194
Total nominal value of paid-in and registered ordinary shares	55,381	55,381

17 Commitments and Contingencies

Operating environment

General overview

The Bank conducts all its operations in the Republic of Azerbaijan.

Azerbaijan's economy remains particularly sensitive to fluctuations in hydrocarbon prices. However, in recent years, the Azerbaijani Government has made significant strides in implementing economic and social reforms aimed at diversifying the economy to reduce dependence on the hydrocarbon sector, which continues to represent a substantial portion of the country’s GDP.

Economic performance

In 2024, Azerbaijan’s GDP grew by 4.6%, a notable acceleration from 1.1% growth in 2023. The oil and gas sector rose slightly by 0.3%, while the non-oil sector experienced a stronger growth rate of 6.2%. This progress is primarily driven by government investments in the non-oil sector, improvements in the business environment, and rising consumer spending. The overall economic performance continues to reflect the government’s ongoing efforts to diversify the economy.
The high average hydrocarbon prices during 2023 and 2024 added additional stability to the local currency.

During 2023 and 2024, the Azerbaijani manat demonstrated resilience against major currency fluctuations, partly due to high hydrocarbon prices and effective monetary and fiscal policies. Additionally, Azerbaijan’s strategic foreign exchange reserves grew by approximately 7% during 2024, exceeding 70 billion USD by the end of the year.

(Amounts presented are in thousands of Azerbaijani manats)

17 Commitment and contingencies (continued)

Operating environment (continued)

Looking ahead, both local and international organizations predict steady growth for Azerbaijan's economy. The UN forecasts a 3% GDP growth rate for Azerbaijan in 2025, while the Ministry of Economy of Azerbaijan Republic predicts GDP growth of 3.5% in 2025 and 2.8% in 2026. Additionally, the rising global demand for Azerbaijani natural gas is expected to continue supporting GDP growth in 2025 and beyond.

Monetary policy

The Central Bank of Azerbaijan Republic (CBAR) has continued to actively manage its monetary policy to ensure financial stability. In 2024, the CBAR reduced the refinancing rate to 7,25% from 8.25%, in response to the moderation in inflation rates. This adjustment aims to support economic growth while maintaining control over inflation, which decreased from 8.8% in 2023 to around 2.2% in 2024.

The Central Bank of Azerbaijan Republic has also adjusted mandatory reserve ratios in response to evolving liquidity conditions in the banking sector, aiming to ensure financial stability in a complex economic landscape.

Throughout 2024 and 2023, the Azerbaijani manat remained stable at 1.7000 AZN to 1 USD.

Credit Rating Assessment

During 2024 Standard & Poor's credit rating for Azerbaijan stands at "BB+" with stable outlook. Moody's credit rating for Azerbaijan was last set at "Ba1" with positive outlook. Fitch Ratings upgraded Azerbaijan's Long-Term Foreign-Currency Issuer Default Rating (IDR) to "BBB-" from "BB+", reflecting an improved credit profile. This assessment reflects the effectiveness of economic policy in recent years, strong fiscal performance and high hydrocarbon prices.

Management response

The Bank's management is monitoring economic developments in the current environment and taking precautionary measures, it considers necessary in order to support the sustainability and development of the Bank's business in the foreseeable future. The Bank considers its current liquidity position to be sufficient for its sustainable functioning. The Bank monitors its liquidity position on a daily basis.

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 the Republic of 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 inspection covered the year ended 31 December 2018.

Management believes that as at 31 December 2024 its interpretation of the relevant legislation is appropriate, and that the Bank's tax and social contribution position will be sustained.

Compliance with CBAR ratios

The CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2024 and 2023, the Bank was in compliance with these ratios.

Insurance

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

(Amounts presented are in thousands of Azerbaijani manats)

17 Commitment and contingencies (continued)

Financial commitments and contingencies

The Bank provides guarantees and letters of credit to customers with the primary purpose of ensuring that funds are available to customers as required. Guarantees and standby letters of credit represent irrevocable assurances that the Bank will make payments if 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 direct lending.

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

	2024	*2023*
Undrawn loan commitments	157,622	132,762
Guarantees issued	41,303	28,081
Letters of credit	496	519
Commitments and contingencies (before deducting collateral)	**199,421**	**161,362**
Less − cash held as security against commitments *(Note 15)*	(16,040)	(11,126)
Commitments and contingencies	**183,381**	**150,236**

The ECL relating to commitment and contingencies of the Bank rounds to zero in both years.

18 Credit loss expense and other impairment

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

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Investment securities	7	228	−	−	**228**
Loans to customers at amortised cost	8	(139)	(234)	1,275	**902**
Cash and Cash Equivalents	5	(117)	−	−	**(117)**
Amounts due from Credit Institutions	6	74	−	−	**74**
Credit loss on financial assets		**46**	**-234**	**1,275**	**1087**

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

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Investment securities	7	(55)	−	−	**(55)**
Loans to customers at amortised cost	8	(366)	30	3,195	**2,859**
Cash and Cash Equivalents	5	(28)	−	−	**(28)**
Amounts due from Credit Institutions	6	(359)	−	−	**(359)**
Credit loss on financial assets		**(808)**	**30**	**3,195**	**2,417**

19 Interest Income and expense

Interest income and expenses for the year ended 31 December comprise:

	2024	*2023*
Interest income calculated using the effective interest method		
Loans to customers	30,652	22,245
Investment securities	5,964	5,384
Amounts due from Cash and cash equivalents	5,190	3,761
Amounts due from credit institutions	3,025	509
	44,831	**31,899**
Interest expense		
Amounts due to customers	(5,018)	(1,615)
Amounts due to banks and government funds	(1,591)	(830)
Lease liabilities	(1,188)	(428)
	(7,797)	**(2,873)**
Net interest income	**37,034**	**29,026**

(Amounts presented are in thousands of Azerbaijani manats)

20 Fee and commission Income

Fee and commission income for the year ended 31 December comprise:

	2024	***2023***
Plastic card operations	7,765	5,446
Settlements operations	4,766	4,398
Cash operations	2,806	2,271
Guarantees and letters of credit	957	728
Agent activities	219	227
Other	44	34
Fee and commission income	**16,557**	**13,104**
Plastic card operations	(10,449)	(7,981)
Settlements operations	(1,467)	(1,338)
Agent activities	(33)	(76)
Guarantees and letters of credit	(18)	(3)
Other	(370)	(197)
Fee and commission expense	**(12,337)**	**(9,595)**
Fee and commission income, net	**4,220**	**3,509**

21 Operating expenses

Operating expenses for the year ended 31 December comprise:

	2024	***2023***
Staff costs	15,539	14,912
Depreciation and amortization	3,755	3,901
Depreciation charge on right of use assets	2,285	2,421
Support expenses	2,224	1,687
Repairs and maintenance	1,833	1,307
Security	1,316	1,078
Legal and consulting	1,000	955
Communications	842	823
Insurance	751	664
Marketing and advertising	411	432
Entertainment	353	382
Utilities	324	333
Operating taxes other than income tax	235	205
Fines, penalties, and forfeits	155	238
Office supplies	109	136
Membership	48	42
Donations	11	234
Rent expenses	256	–
Other expenses	485	370
General and administrative expenses	**31,932**	**30,120**

Audit fees in amount of AZN 264 (2023: AZN 170) are included within legal and consulting expenses above.

Staff costs for the year ended 31 December comprise:

	2024	***2023***
Salaries and bonuses	12,454	11,979
Social security costs	1,817	1,772
Other employee benefits	1,268	1,161
Personnel expenses	**15,539**	**14,912**

(Amounts presented are in thousands of Azerbaijani manats)

22 Financial Risk Management

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 and profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk and the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

Risk management structure

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

Supervisory Board

The Supervisory Board 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 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

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

The 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 which 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.

(Amounts presented are in thousands of Azerbaijani manats)

22 Financial Risk Management (continued)

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 Supervisory Board 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.

Excessive risk concentration

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

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

Credit risk

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. 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 makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to risks similar 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 below.

Impairment assessment

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

(Amounts presented are in thousands of Azerbaijani manats)

22 Financial Risk Management (continued)

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

- The loan was 90+ days overdue at any point within the considered time horizon;
- The customer has a written-off loan.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. As a matter of exception from determining the lifetime exposure based on contractual maturity, for credit cards issued to individuals, the lifetime exposure is measured over a period that is based on expected life of the credit card contracts, based on internal statistics, and it is equal on average to 1 to 5 years.

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

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

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs.

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

Leaving default status depends on which defaulted triggers exposure experienced during its default. Number of scenarios can be limited to two:

- If exposure experienced only more than 90 days past due then it's no longer considered as default when it reaches 30 days delinquency for a consecutive period of six months;
- If exposure experienced also other default triggers then it leaves default status when it no longer meets any of the default criteria for a consecutive period of six months;
- Any other relevant management information on default situation of the customer.

This logic has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures.

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment ("$ExOff$"). CCF for undrawn credit lines of corporate customers, credit cards issued to individuals and for financial guarantees is defined based on statistical analysis of past exposures at default. CCF for overdrafts is defined as 100% since the limits can be used by the customers at any time.

Internal ratings**.** For purpose of PD modelling simplified behavioural scoring models were created and developed to differentiate the risk profile of an individual exposure.

Credit scoring is an instrument widely used by companies for the internal processes of portfolio risk measurement and management. Scoring can be defined in general as a statistical technique to predict, at a specific point in time with the available information, the probability of a future event. More specifically it allows banks to estimate the probability of default of a person requesting credit (then application scoring model is usually used) or a customer already in the portfolio (behavioural scoring model).

(Amounts presented are in thousands of Azerbaijani manats)

22 Financial Risk Management (continued)

The main assumption for scoring model development is that the past behaviour is a good predictor for the future, thus models are developed based on historical data. In particular, behavioural models are leveraging the information regarding past delinquency, historical credit utilization, history of payments or collection actions. In practice, credit scoring results in the definition of a table listing the characteristics that provide the most predictive information together with the associated attributes and weightings. A total score is obtained as the sum of the points for each characteristic.

Ratings, which were created base on score values, gather exposures with similar risk profile. Therefore PDs are estimated on homogenies risk groups (i.e. per segment and rating).

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

Basel PD Range	***Moody's based internal/external ratings for Financial institutions***	***Internal rating description***
0.01% - 0.5%	Aaa Aa1 to Aa3 A1 to A3	High grade
0.5% - 11.7%	Baa1 to Baa3 Ba1 to Ba3 B1 to B3	Standard grade
11.7% - 50%	Caa1 to Caa3 Ca	Sub-standard grade
50%-100%	C	Impaired

Probability of default (PD). PD is an estimate of the likelihood of default to occur over a given time period. For every exposure is estimated lifetime PD curve which is dependant from time, credit risk rating and segment. 12-month PD is calculated as part of lifetime PD curve. Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument.

PDs for each segment were defined on a collective basis as the proportion of loans which defaulted within a year of the considered date. This proportion is measured for every month in the observation window for the regression. Default migration is identified on a customer basis. Stage 1 and Stage 2 assets are modelled together using intercept and slope dummy variables. The Bank normalizes stage1 and stage 2 default rates by dividing them with their respective averages to avoid overfit due to dummies and regress relative default rates on growth rates of macroeconomic variables and their lags over the horizon of the default rate. Bayesian Information Criteria ("BIC") have been used for variable selection as Akaike's Information Criteria ("AIC") tends to overfit in small samples.

Macro-economic factors. Internal bank forecasts provide the best estimate of the expected macro-economic development over the next 3 years. After 3 years, no macro-economic impact is used. The impact of the relevant economic variables on the PD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates.

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

The Bank used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. The most significant forward-looking assumptions that correlate with ECL level were as follows at 31 December 2024:

Variable	***Commercial customers***	***SME***	***Consumer***	***Residential Mortgage***
CPI (not inflation) and its lags	YES		YES	
USD AZN exchange rate		YES		
Budget expenditures			YES	YES

The goodness of fit has been measured based average Kolmogorov-Smirnov (KS) test p-values for all growth rates of the same macroeconomic variable.

(Amounts presented are in thousands of Azerbaijani manats)

22 Financial Risk Management (continued)

For all macroeconomic variables the results of the calculation show highest average p-values with "Student's t" distribution, therefore those results are used for scenario probability generation.

Based on estimated parameters, 1000 quantiles 0.1% apart have been calculated, their averages converted into scenarios for the variables. Joint probability tables calculated using Monte Carlo simulation to assign weight for each scenario.

Final PDs are reflective of these scenarios and represent probability weighted averages with the weights stated above.

Loss given default (LGD). LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive. It is usually expressed as a percentage of the gross book value. The expected losses are discounted to present value at the end of the reporting period.

LGD varies by the type of counterparty and product type. The LGDs are determined based on the factors that impact the expected recoveries after a default event. The calculation of LGD is based on recovery statistics.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support.

The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

- Measurement of LGD based on the specific characteristics of the collateral;
- Calculation of LGD on a portfolio basis based on recovery statistics; or
- Individually defined LGD depending on different factors and scenarios.

The Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio and for retail secured and unsecured products.

Exposure at default (EAD**)**. EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities.

For revolving products EAD is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the off-balance amounts to an on-balance sheet exposure within a defined period. CCF is assumed as the maximum (arithmetic average) percentage of conversion of off-balance amount to balance amount at time of default compared to three-twelve-month prior state. CCF for financial guarantees is defined based on globally accepted Basel 3 standard.

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

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

(Amounts presented are in thousands of Azerbaijani manats)

22 Financial Risk Management (continued)

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

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

- 31-90 days overdue;
- Restructured overdue loans;
- Non-cash loans returned to cash due to failure of customers to fulfil their commitments;
- Any other relevant management information on financial situation deterioration on the customer.

If there is evidence that the stage 2 criteria are no longer met, the instrument is transferred back to Stage 1 if the borrower does not have any other amounts more than 10 days past due during the probation period, which is defined as six months. The probation period resets whenever loan overdue days exceed 10 days or loans are re-restructured.

If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to apply or it is no longer valid.

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. The Bank identified certain key economic variables that correlate with developments in credit risk and ECLs. Forecasts of economic variables (the "base economic scenario") are provided by the Bank's and provide the best estimate of the expected macro-economic development over the next three years. The impact of the relevant economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Bank's Risk Department also provides other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure that non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking into account the range of possible outcomes of which each chosen scenario is representative. The assessment of SICR is performed using the Lifetime PD under each of the bases and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a probability-weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

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

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed at least once a year.

The results of backtesting the ECL measurement methodology are communicated to Bank Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

(Amounts presented are in thousands of Azerbaijani manats)

22 Financial Risk Management (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank's 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

31 December 2024	***Note***		***High grade***	***Standard grade***	***Sub-standard grade***	***Impaired***	***Total***
Cash and cash equivalents, (except for cash on hand)	5	Stage 1	154,130	118,133	175	–	**272,438**
Amounts due from credit institutions	6	Stage 1	22,140	22,067	–	–	**44,207**
Loans to customers at amortised cost	8						
		Stage 1	–	162,305	–	–	**162,305**
- commercial customers		Stage 2	–	390	1,673	–	**2,063**
		Stage 3	–	–	–	20,903	**20,903**
		Stage 1	–	71,376	–	–	**71,376**
		Stage 2	–	1,074	1,122	4	**2,200**
- Consumer loans		Stage 3	–	–	–	9,553	**9,553**
		Stage 1	–	45,600	–	–	**45,600**
		Stage 2	–	300	–	–	**300**
- Mortgage loans		Stage 3	–		–	1,584	**1,584**
		Stage 1	–	3,811	–	–	**3,811**
		Stage 2	–	7	–	–	**7**
- Loans to SME		Stage 3	–	–	–	7,484	**7,484**
Debt securities at amortised cost	7	Stage 1	25,295	–	–	–	**25,295**
Debt securities at FVOCI	7	Stage 1	52,210	–	–	–	**52,210**
Undrawn loan commitments	17	Stage 1	–	79,456	78,166	–	**157,622**
Guarantees issued	17	Stage 1	–	41,303	–	–	**41,303**
Letters of credit	17	Stage 1	–	496	–	–	**496**
Total			**253,775**	**546,318**	**81,136**	**39,528**	**920,757**

(Amounts presented are in thousands of Azerbaijani manats)

22 Financial Risk Management (continued)

31 December 2023	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, (except for cash on hand)	5	Stage 1	72,791	2,446	3,848	–	**79,085**
Amounts due from credit institutions	6	Stage 1	16,480	31,814	–	–	**48,294**
Loans to customers at amortised cost	8						
		Stage 1	–	159,715	–	–	**159,715**
		Stage 2	–	1,567	483	–	**2,050**
- Commercial customer		Stage 3	–	–	–	21,491	**21,491**
		Stage 1	–	59,269	–	–	**59,269**
		Stage 2	–	983	694	–	**1,677**
- Consumer loans		Stage 3	–	–	–	8,363	**8,363**
		Stage 1	–	33,567	–	–	**33,567**
		Stage 2	–	192	–	–	**192**
- Mortgage loans		Stage 3	–	–	–	1,369	**1,369**
		Stage 1	–	5,129	–	–	**5,129**
		Stage 2	–	14	–	–	**14**
- - Loans to SME		Stage 3	–	–	–	9,206	**9,206**
Debt securities at amortised cost	7	Stage 1	85,852	–	–	–	**85,852**
Undrawn loan commitments	17	Stage 1	–	74,643	58,119	–	**132,762**
Guarantees issued	17	Stage 1	–	28,081	–	–	**28,081**
Letters of credit	17	Stage 1	–	519	–	–	**519**
Total			**175,123**	**397,939**	**63,144**	**40,429**	**676,635**

More detailed information with respect to the allowance for impairment of loans to customers is provided in *Note 8.*

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

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

	2024				*2023*			
	Azerbaijan	*OECD*	*CIS and other countries*	*Total*	*Azerbaijan*	*OECD*	*CIS and other countries*	*Total*
Financial Assets								
Cash and cash equivalents	171,803	108,391	6,975	**287,169**	60,963	28,782	3,817	**93,562**
Amounts due from credit institutions	22,122	21,771	–	**43,893**	16,433	31,473	–	**47,906**
Loans to customers	294,567	5,204	–	**299,771**	267,417	5,646	–	**273,063**
Investment securities	77,724	–	–	**77,724**	85,842	–	–	**85,842**
Other financial assets	6,493	–	–	**6,493**	5,950	–	–	**5,950**
Total assets	**572,709**	**135,366**	**6,975**	**715,050**	**436,605**	**65,901**	**3,817**	**506,323**
Financial Liabilities								
Amounts due to banks and government funds	41,894	70	–	**41,964**	31,871	–	–	**31,871**
Amounts due to customers	563,584	–	–	**563,584**	371,376	–	–	**371,376**
Other financial liabilities	18,040	–	–	**18,040**	15,094	–	–	**15,094**
Total liabilities	**623,518**	**70**	**–**	**623,588**	**418,341**	**–**	**–**	**418,341**
Net assets/(liabilities)	**(50,809)**	**135,296**	**6,975**	**91,462**	**18,264**	**65,901**	**3,817**	**87,982**

(Amounts presented are in thousands of Azerbaijani manats)

22 Financial Risk Management (continued)

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 highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains obligatory reserve 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% (2023: 30%) and liquidity coverage ratio more than 80% (2023: no established limit). As at 31 December 2024 instant liquidity ratio was 68.54% (2023: 61.32%) while liquidity coverage ratio was 465.8%.

Analysis of financial liabilities by remaining contractual maturities

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

Financial Liabilities	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
As at 31 December 2024					
Amounts due to banks and government funds	7,039	2,595	9,262	29,830	**48,726**
Amounts due to customers	516,058	38,603	6,749	3,361	**564,771**
Other financial liabilities	3,546	2,081	10,398	5,289	**21,314**
Total undiscounted financial liabilities	**526,643**	**43,279**	**26,409**	**38,480**	**634,811**

Financial Liabilities	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
As at 31 December 2023					
Amounts due to banks and government funds	3,458	1,673	5,167	22,938	**33,236**
Amounts due to customers	335,548	24,407	11,871	352	**372,178**
Other financial liabilities	4,872	1,763	7,431	3,319	**17,385**
Total undiscounted financial liabilities	**343,878**	**27,843**	**24,469**	**26,609**	**422,799**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down and all financial guarantees, letter of credits are shown based on contractual expiry by maturity:

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
31 December 2024	27,577	25,527	70,412	75,905	**199,421**
31 December 2023	9,246	22,113	79,238	50,765	**161,362**

Financial guarantees, letter of credits and performance guarantees could be called anytime throughout the period of agreement upon request of borrower, however 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 realize an equivalent amount of assets within the same period of time. There is a significant concentration of amounts due to customers represented by corporate organizations in the period of 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 realize its liquid assets to enable repayment.

(Amounts presented are in thousands of Azerbaijani manats)

22 Financial Risk Management (continued)

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 the amounts due in less than one month 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, foreign exchanges and equity prices. The Bank does not have any significant equity, corporate fixed income or derivatives holdings.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The sensitivity of current year profit is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2024. The Bank does not have a substantial amount of floating rate non-trading financial instruments as at 31 December 2024 and 2023

Currency risk

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

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

As at 31 December 2024, the Bank had the following exposure to foreign currency exchange rate risk:

	AZN	*USD*	*EUR*	*Other*	*Total 2024*
Financial assets					
Cash and cash equivalents	155,917	93,474	26,220	11,558	**287,169**
Amounts due from credit institutions	9,118	27,632	7,143	–	**43,893**
Investment securities	77,724	–	–	–	**77,724**
Right of Use Asset	7,657	6,372	–	–	**14,029**
Loans to customers	212,101	80,934	6,723	13	**299,771**
Other financial assets	6,192	246	55	–	**6,493**
Total financial assets	**468,709**	**208,658**	**40,141**	**11,571**	**729,079**
Financial liabilities					
Amounts due to banks and government funds	41,915	49	–	–	**41,964**
Amounts due to customers	319,394	202,019	30,740	11,431	**563,584**
Other financial liabilities	11,673	6,358	9	–	**18,040**
Total financial liabilities	**372,982**	**208,426**	**30,749**	**11,431**	**623,588**
Net financial position	**95,727**	**232**	**9,392**	**140**	**105,491**

As at 31 December 2023, the Bank had the following exposure to foreign currency exchange rate risk:

	AZN	*USD*	*EUR*	*Other*	*Total 2023*
Financial assets					
Cash and cash equivalents	51,407	29,954	6,206	5,995	**93,562**
Amounts due from credit institutions	7,597	29,292	11,017	–	**47,906**
Investment securities	85,842	–	–	–	**85,842**
Loans to customers	182,188	83,368	7,507		**273,063**
Other financial assets	5,950				**5,950**
Total financial assets	**332,984**	**142,614**	**24,730**	**5,995**	**506,323**
Financial liabilities					
Amounts due to banks and government funds	29,003	48	2,820	–	**31,871**
Amounts due to customers	203,342	141,201	21,037	5,796	**371,376**
Other financial liabilities	12,438	1,903	753	–	**15,094**
Total financial liabilities	**247,274**	**141,412**	**23,859**	**5,796**	**418,341**
Net financial position	**85,710**	**1,202**	**871**	**199**	**87,982**

(Amounts presented are in thousands of Azerbaijani manats)

22 Financial Risk Management (continued)

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 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 Azerbaijani manats, with all other variables held constant on the statement of profit or loss The effect on equity does not differ from the effect on the statement of profit or loss and other comprehensive income. A negative amount in the table reflects a potential net reduction in statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Impact on profit before tax based on net assets value as at 31 December:

	2024		***2023***	
USD	+2% / -2%	5/ (5)		120 / (120)
EUR	+8.59% / −5.53%	807 / (519)	+10% / −10%	96 / (96)

Operational risk

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

23 Fair Value Measurement

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 – debt securities at FVOCI	31 December 2024	40,692	11,518	−	**52,210**
Investment securities – equity securities at FVOCI	31 December 2024	−	−	240	**240**
Assets for which fair values are disclosed					
Amounts due from credit institutions	31 December 2024	−	43,893	−	**43,893**
Loans to customers	31 December 2024	−	−	298,158	**298,158**
Investment securities at amortized cost	31 December 2024	−	25,331		**25,331**
Other financial assets	31 December 2024	−	6,493	−	**6,493**
Liabilities for which fair values are disclosed					
Amounts due to banks and government funds	31 December 2024	−	41,964	−	**41,964**
Amounts due to customers	31 December 2024	−	563,386	−	**563,386**
Other financial liabilities	31 December 2024	−	18,040	−	**18,040**

(Amounts presented are in thousands of Azerbaijani manats)

23 Fair Value Measurement (continued)

		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 – equity securities at FVOCI	31 December 2023	–	–	240	**240**
Assets for which fair values are disclosed					
Amounts due from credit institutions	31 December 2023	–	47,906	–	**47,906**
Loans to customers	31 December 2023	–	–	271,614	**271,614**
Investment securities at amortized cost	31 December 2023	9,972	76,072	–	**86,044**
Other financial assets	31 December 2023	–	5,950	–	**5,950**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2023	–	31,871	–	**31,871**
Amounts due to customers	31 December 2023	–	371,388	–	**371,388**
Other financial liabilities	31 December 2023	–	15,094	–	**15,094**

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.

	2024			***2023***		
	Carrying value	***Fair value***	***Unrecognised gain/(loss)***	***Carrying value***	***Fair value***	***Unrecognised gain/(loss***
Financial assets						
Amounts due from credit institutions	43,893	43,893	**–**	47,906	47,906	
Loans to customers	299,771	298,158	**(1,613)**	273,063	271,614	**(1,449)**
Investment securities	25,274	25,331	**57**	85,842	86,284	**442**
Other financial assets	6,493	6,493	**–**	5,950	5,950	**–**
Financial liabilities						
Amounts due to credit institutions	41,964	41,964	**–**	31,871	31,871	**–**
Amounts due to customers	563,584	563,386	**198**	371,376	371,388	**(12)**
Other financial liabilities	18,040	18,040	**–**	15,094	15,094	
Total unrecognised change in unrealised fair value			**(1,358)**			**(1,019)**

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 financial statements of financial position, but whose fair value is disclosed.

Assets for which fair value approximates carrying value

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

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. Derivatives valued using a valuation technique with significant non-market observable inputs are primarily long dated option contracts. These derivatives are valued using the binomial models. The models incorporate various non-observable assumptions, which include market rate volatilities.

(Amounts presented are in thousands of Azerbaijani manats)

23 Fair Value Measurement (continued)

Valuation techniques and assumptions

Investment securities

Investment securities valued using a valuation technique or pricing models primarily consist of unquoted equity and 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.

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted notes is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, amounts due from credit institutions, amounts due to credit institutions, amounts due to customers, 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 assets and liabilities as at 31 December 2024 and 2023 by their remaining contractual maturity, by when the Bank has a right to realize the assets and an obligation to settle the liabilities. The Bank considers assets and liabilities with a remaining contractual maturity of Within one year as current, and assets and liabilities with remaining contractual maturity of More than one year as non-current. The Bank's contractual undiscounted repayment obligations are disclosed in *Note 22.*

	2024			***2023***		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	287,169	−	**287,169**	93,562	−	**93,562**
Amounts due from credit institutions	36,447	7,446	**43,893**	47,906	−	**47,906**
Investment securities	29,613	48,111	**77,724**	57,587	28,255	**85,842**
Loans to customers	187,304	112,467	**299,771**	186,772	86,291	**273,063**
Right of use assets	−	14,029	**14,029**	−	10,744	**10,744**
Property and equipment	−	6,027	**6,027**	−	4,479	**4,479**
Intangible assets	−	9,658	**9,658**	−	7,244	**7,244**
Other assets	8,363	2,723	**11,086**	9,239	900	**10,139**
Total assets	**548,896**	**200,461**	**749,357**	**395,066**	**137,913**	**532,979**
Amounts due to banks and government funds	8,141	33,823	**41,964**	5,058	26,813	**31,871**
Amounts due to customers	553,529	10,055	**563,584**	359,916	11,460	**371,376**
Current income tax liabilities	325	−	**325**	2,997	−	**2,997**
Deferred income tax liabilities	−	500	**500**	−	868	**868**
Other liabilities	11,328	14,495	**25,823**	12,321	10,871	**23,192**
Total liabilities	**573,323**	**58,873**	**632,196**	**380,292**	**50,012**	**430,304**
Net (liabilities)/assets	**(24,427)**	**141,588**	**117,161**	**14,774**	**87,901**	**102,675**

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to management of the Bank. An unmatched position potentially enhances profitability and leverage, but can also increase the risk of unexpected 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.

Management believes that in spite of a substantial portion of amounts due to customers being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank indicates that these amounts provide a long−term and stable source of funding. Management believes that it is unlikely that unusually large number of customers will withdraw their funds in a short time span.

Negative gap is due to significant concentration of amounts due to customers represented by top corporate customers in the period of one year and these customers have a long−established history as the Bank's customers. Management believes that 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.

(Amounts presented are in thousands of Azerbaijani manats)

24 Maturity Analysis of Assets and Liabilities (continued)

The CBAR's minimum liquidity norm for banks of 30% is a reasonable precautionary measure taken by the regulator, which is based on the nature and established normal business practice in banking industry. The Bank has a reasonably high headroom above the minimum required liquidity ratio. The Bank has a reasonably high headroom above the minimum required liquidity ratios. The Bank's actual instant liquidity ratio is 68.54% and liquidity coverage ratio is 465.8% as at 31 December 2024 (2023: instant liquidity ratio 61.32%, liquidity coverage ratio 220.4%).

Although the Bank holds considerable amounts of investment securities maturing in more than one year, the Bank is able to sell a substantial portion of such securities on an open market in case of urgent liquidity needs.

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.

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.

The outstanding balances of related party transactions are as follows:

	2024		*2023*	
	Share-holders/ ultimate owners	***Entities under common control***	***Share-holders/ ultimate owners***	***Entities under common control***
Loans outstanding at 1 January 2024, gross	**–**	***3,863***	**–**	***4,931***
Loans issued during the year	–	808	–	2,627
Loan repayments during the year	–	(1,564)	–	(3,692)
Net movement in accrued interest	–	(3)	–	(3)
Loans outstanding at 31 December 2024, gross	**–**	**3,104**	**–**	**3,863**
Less: allowance for impairment at 31 December	–	(14)	–	(18)
Loans outstanding at 31 December 2024, net	**–**	**3,090**	**–**	**3,845**
Current accounts (within Cash and cash equivalents) outstanding at 1 January 2024	**686**	–	**1,826**	–
Net movement in current accounts	1,636	–	(1,140)	–
Current accounts (within Cash and cash equivalents) outstanding at 31 December 2024	**2,322**	–	**686**	–
Less: allowance for impairment at 31 December	(32)	–	(8)	–
Current accounts (**within Cash and cash equivalents) outstanding at 31 December 2024, net**	**2,290**	**–**	**678**	**–**
Deposits at 1 January 2024	**–**	**3,335**	**–**	2,146
Deposits receive during the year	–	7,992	–	2,021
Deposits repaid during the year	–	(700)	**–**	(832)
Deposits at 31 December 2024	**–**	**10,627**	**–**	**3,335**

As at 31 December 2024, total current accounts with related parties amounted to AZN 2,290 (31 December 2023: AZN 678). During the year, placements by related parties totalled AZN 10,627 (2023: AZN 3,335).

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

	2024		*2023*	
	Share-holders/ ultimate owners	***Entities under common control***	***Share-holders/ ultimate owners***	***Entities Under common control***
Interest income	–	335	–	152
Interest expense	–	(187)	–	(33)
Fee and commission income	–	62	–	46
Fee and commission expense	(87)	–	(94)	–
General and administrative expenses	(185)	(1,053)	(257)	(652)

(Amounts presented are in thousands of Azerbaijani manats)

25 Related party disclosures (continued)

Compensation of key management personnel of 3 members (2023: 3 members) was comprised of the following:

	2024	*2023*
Salaries and short-term benefits	1,441	1,329
Other accrued employee costs	62	78
Total key management personnel compensation	**1,503**	**1,407**

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 using the ratios established 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 of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years. Management believes that the Bank was in compliance with the statutory capital adequacy ratio throughout 2024.

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

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

	2024	*2023*
Tier 1 capital	92,568	80,565
Tier 2 capital	17,419	16,793
Less: deductions from capital	(10,398)	(9,412)
Total regulatory capital	**99,589**	**87,946**
Risk-weighted assets	**478,849**	**414,043**
Tier 1 capital adequacy ratio	17.21%	17.24%
Total capital adequacy ratio	20.80%	21.24%