

“TURANBANK” OPEN JOINT STOCK COMPANY

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

“TURANBANK” OJSC

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

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

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

In preparing the financial statements, management is responsible for:


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

Management is also responsible for:

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

The financial statements for the year ended December 31, 2024 were authorized for issue on May 30, 2025 by the Management Board of the Bank.

On behalf of the Management Board:


Mr. Orkhan Garayev
Chairman of the Management Board

May 30, 2025
Baku, the Republic of Azerbaijan




Mr. Alizaman Ibrahimov
Head of Financial Management

May 30, 2025
Baku, the Republic of Azerbaijan

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Management Board of "TuranBank" Open Joint Stock Company:

Opinion

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

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

Basis for Opinion

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

Other Matter

The financial statements of the Bank for the year ended December 31, 2023 were audited by another auditor who expressed unqualified opinion on those financial statements on May 30, 2024.

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 IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the 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 have no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

Baker Tilly Azerbaijan

May 30, 2025

Baku, the Republic of Azerbaijan

“TURANBANK” OJSC

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2024

(in thousands of Azerbaijani manats, unless otherwise indicated)


	Notes	December 31, 2024	December 31, 2023
ASSETS			
Cash and cash equivalents	7	124,936	99,769
Loans and deposits to banks	8	32,076	30,902
Loans to customers	9, 29	618,298	602,630
Investment securities	10	28,927	41,602
Property, equipment and intangible assets	11	37,097	30,334
Deferred income tax asset	24	-	70
Other assets	12	5,704	6,742
TOTAL ASSETS		847,038	812,049
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits and balances from banks and other financial institutions	13, 29	76,496	83,105
Current accounts and deposits from customers	14, 29	466,339	463,649
Other borrowed funds	15	171,778	177,874
Subordinated borrowings	15, 29	28,641	11,936
Lease liability	16	3,796	3,171
Deferred income tax liability	24	1,139	-
Other liabilities	17	5,525	7,266
TOTAL LIABILITIES		753,714	747,001
EQUITY:			
Share capital	18	100,006	80,005
Share premium	18	724	724
Revaluation surplus for buildings		1,644	1,644
Net unrealized loss on investment securities		-	(309)
Accumulated deficit		(9,050)	(17,016)
TOTAL EQUITY		93,324	65,048
TOTAL LIABILITIES AND EQUITY		847,038	812,049

On behalf of the Management Board:


Mr. Orkhan Garayev
Chairman of the Management Board

May 30, 2025
Baku, the Republic of Azerbaijan




Mr. Alizaman Ibrahimov
Head of Financial Management

May 30, 2025
Baku, the Republic of Azerbaijan

The notes on pages 58-65 form an integral part of these financial statements.

“TURANBANK” OJSC

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

(in thousands of Azerbaijani manats, unless otherwise indicated)

	Notes	Year ended December 31, 2024	Year ended December 31, 2023
Interest income	20, 29	87,771	79,443
Interest expense	20, 29	(47,643)	(47,153)
Net interest income before expected credit loss		40,128	32,290
Expected credit losses on financial assets and credit related commitments	8, 9, 10, 17, 29	(12,800)	(9,432)
Net interest income		27,328	22,858
Fee and commission income	21, 29	10,826	6,699
Fee and commission expense	21, 29	(5,592)	(4,615)
Net gain on trading in foreign currencies		10,811	5,295
Net foreign exchange translation loss		(50)	(245)
Change in fair value of repossessed collaterals		40	(40)
Other income/(expenses), net		149	(110)
Net non-interest income		16,184	6,984
Operating income		43,512	29,842
Personnel expenses	22, 29	(20,179)	(17,711)
General and administrative expenses	23	(12,744)	(10,983)
Profit before income tax		10,589	1,148
Income tax expense	24	(2,623)	(337)
Net profit for the year		7,966	811
Other comprehensive income:			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of investment securities		572	180
Charge in expected credit losses on investment securities at OCI		(186)	-
Income tax recorded directly in OCI		(77)	(36)
Net other comprehensive income		309	144
Total comprehensive income for the year		8,275	955
Basic and diluted earnings per share (expressed in AZN)	19	96	11

On behalf of the Management Board:


Mr. Orkhan Garayev

Chairman of the Management Board

May 30, 2025
Baku, the Republic of Azerbaijan




Mr. Alizaman Ibrahimov

Head of Financial Management

May 30, 2025
Baku, the Republic of Azerbaijan

The notes on pages 8-83 form an integral part of these financial statements.


“TURANBANK” OJSC

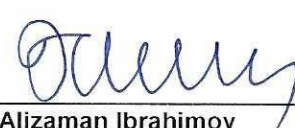
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2024

(in thousands of Azerbaijani manats, unless otherwise indicated)

	Share capital	Share premium	Revaluation surplus for buildings	Net unrealized loss on investment securities	Accumulated deficit	Total equity
January 1, 2023	80,005	724	1,644	(453)	(17,827)	64,093
Net profit for the year	-	-	-	-	811	811
Other comprehensive income for the year	-	-	-	144	-	144
Balance as at December 31, 2023	80,005	724	1,644	(309)	(17,016)	65,048
Issue of ordinary shares	20,001	-	-	-	-	20,001
Net profit for the year	-	-	-	-	7,966	7,966
Other comprehensive income for the year	-	-	-	309	-	309
Balance as at December 31, 2024	100,006	724	1,644	-	(9,050)	93,324

On behalf of the Management Board:


Mr. Orkhan Garayev
Chairman of the Management Board


Mr. Alizaman Ibrahimov
Head of Financial Management

May 30, 2025
Baku, the Republic of Azerbaijan

May 30, 2025
Baku, the Republic of Azerbaijan

The notes on pages 8-83 form an integral part of these financial statements.



“TURANBANK” OJSC

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2024

(in thousands of Azerbaijani manats, unless otherwise indicated)

	Notes	Year ended December 31, 2024	Year ended December 31, 2023
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		87,475	80,400
Interest paid		(48,544)	(48,773)
Fees and commission received		10,826	6,699
Fees and commission paid		(5,592)	(4,615)
Staff costs paid		(20,184)	(17,553)
General and administrative expenses paid		(9,135)	(8,143)
Income received from trading in foreign currencies		10,811	5,295
Income tax paid		(1,785)	(1,295)
		<u>23,872</u>	<u>12,015</u>
Cash inflows from operating activities before changes in operating assets and liabilities			
<i>Net (increase)/decrease in:</i>			
Loans and deposits to banks		(1,042)	19,380
Loans to customers		(28,192)	(82,029)
Other assets		1,357	(1,516)
<i>Net increase/(decrease) in:</i>			
Deposits and balances from banks and other financial institutions		(6,580)	(40,612)
Current accounts and deposits from customers		4,462	32,529
Other liabilities		(1,530)	3,098
		<u>(7,653)</u>	<u>(57,135)</u>
Net cash used in operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale and redemption of investment securities		12,995	10,212
Purchases of property and equipment and intangible assets		(8,940)	(2,256)
Proceeds from disposal of property and equipment and intangible assets		-	7
		<u>4,055</u>	<u>7,963</u>
Cash flows provided from investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of ordinary shares	18	20,001	-
Receipt of other borrowed funds	15	46,346	122,675
Repayment of other borrowed funds	15	(52,147)	(102,747)
Receipt of subordinated borrowings	15	25,328	1,088
Repayment of subordinated borrowings	15	(8,852)	(1,513)
Repayment of principal portion of lease liabilities	16	(814)	(921)
		<u>29,862</u>	<u>18,582</u>
Cash flows generated from financing activities			
		<u>26,264</u>	<u>(30,590)</u>
Net increase/(decrease) in cash and cash equivalents			
Effect of exchange rate changes on cash and cash equivalents		(1,097)	(817)
Cash and cash equivalents at the beginning of the year	7	99,769	131,176
		<u>124,936</u>	<u>99,769</u>
Cash and cash equivalents at the end of the year			

On behalf of the Management Board:

Mr. Orkhan Garayev
Chairman of the Management Board

May 30, 2025
Baku, the Republic of Azerbaijan



Mr. Alizaman Ibrahimov
Head of Financial Management

May 30, 2025
Baku, the Republic of Azerbaijan

The notes on pages 8-83 form an integral part of these financial statements.

“TURANBANK” OJSC

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

(in thousands of Azerbaijani Manats, unless otherwise indicated)

1. INTRODUCTION

“TuranBank” Open Joint-Stock Company (the “Bank”) was established in the Republic of Azerbaijan as an Open Joint Stock Company on June 12, 1992. The principal activities are deposit taking and customer account maintenance, lending, issuing guarantees, cash and settlement operations and transactions with securities and foreign exchange, also in accordance with its banking license the Bank has a right to perform operations with precious metals. The Bank’s activities are regulated by the Central Bank of the Republic of Azerbaijan. The Bank has a general banking license, a license on precious metals, and is a member of the state deposit insurance system in the Republic of Azerbaijan.

The Bank participates in the state deposit insurance scheme, which was introduced by the “Law on Deposit Insurance” dated December 29, 2006. The Azerbaijan Deposit Insurance Fund guarantees repayment of 100% of individual deposits meeting the following criteria:

According to the Law of the Republic of Azerbaijan on “Deposit Insurance”, an insured deposit is a part of a protected deposit that will be compensated by the Deposit Insurance Fund in case of an insurance incident that occurred in the participant bank where a depositor is serviced. Starting from June 1, 2020, the maximum annual interest rate on protected deposits in the national currency is set at 12%, and in foreign currency - 2.5%. Starting from April 5, 2021 in case of an insurance incident each depositor is entitled to receive compensation from the Deposit Insurance Fund for the full amount of the deposit agreement, but not exceeding AZN 100 thousand.

The Bank has 18 branches and 3 sub-branches (December 31, 2023: 18 branches and 2 sub-branch) within the Republic of Azerbaijan.

As at December 31, 2024 the Bank has 28 shareholders each having not more than 10% ownership. (December 31, 2023: 28 shareholders each having not more than 10% ownership). The Bank has no ultimate controlling party who has the power to direct the transactions of the Bank at his own discretion and for his own benefit. The Bank’s registered address is: 85 Ismail Bey Gutgashinly Street, AZ1073, Baku, the Republic of Azerbaijan.

2. BASIS OF PREPARATION

Statement of Compliance

These financial statements have been prepared in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board (IFRS Accounting Standards).

Going Concern

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

Management views the Bank as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations of the Republic of Azerbaijan. Accordingly, assets and liabilities are recorded on the basis that the Bank will be able to realize its assets and discharge its liabilities in the normal course of business. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the Bank’s ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern.

“TURANBANK” OJSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

3. SIGNIFICANT ACCOUNTING POLICIES

Functional currency

Items included in the financial statements of each of the Bank are measured using the currency of the primary economic environment in which the entity operates (“Azerbaijani Manat”). The functional currency of the Bank and its subsidiary is the Azerbaijani Manat (“AZN”). The presentational currency of the financial statements of the Bank is the AZN. All values are rounded to the nearest thousand AZN's, except when otherwise indicated.

Income and expense recognition

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

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

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- Financial assets that have become credit-impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (net of the expected credit loss (“ECL”) provision); and
- Financial assets that are purchased or originated credit-impaired, for which the original credit-adjusted effective interest rate is applied to the amortized cost.

Recognition of fee and commission income

All other fees, commissions and other income and expense items are generally recorded on an accrual basis over the period in which the services are rendered as the customer simultaneously receives and consumes the benefits as the Bank performs, usually on a straight-line basis.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned when the Bank satisfies the performance obligation are recorded upon the completion of the transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, over the period in which the services are rendered as the customer simultaneously receives and consumes the benefits as the Bank performs, usually on a straight-line basis. Asset management fees relating to investment funds are recognized over the period in which services are rendered as the customer simultaneously receives and consumes the benefits as the Bank performs, usually on a straight-line basis. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

“TURANBANK” OJSC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued)

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Financial instruments - key measurement terms

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

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analyzed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

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

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

“TURANBANK” OJSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) (in thousands of Azerbaijani Manats, unless otherwise indicated)

Initial recognition of financial instruments

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by either observable current market transaction in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

Classification of financial instruments

A financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVPL”).

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

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

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

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

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

All other financial assets are classified as measured at FVPL.

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

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank’s management;

“TURANBANK” OJSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank’s stated objective for managing the financial assets is achieved and how cash flows are realized.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. The reclassification has a prospective effect.

Financial assets impairment – credit loss allowance for ECL

The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognizes credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

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

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The Bank applies a three stages model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 months ECL”). If the Bank identifies SICR since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). Refer to Note 26 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank’s definition of credit impaired assets and definition of default is explained in Note 26. For financial assets that are purchased or originated credit-impaired (“POCI Assets”), the ECL is always measured as a Lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired. Note 26 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value.

However, the loss allowance is recognized as part of fair value reserve.

Financial assets – write-off

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

Derecognition of financial assets

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

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Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the Central Bank of the Republic of Azerbaijan (the “CBAR”) with original maturity of less or equal to 90 days, notes issued by the Central Bank of the Republic of Azerbaijan (the “CBAR”) up to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances. Funds restricted for a period of more than 1 business day on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVPL.

Mandatory cash balances with the Central Bank of the Republic of Azerbaijan

Mandatory cash balances with the Central Bank of the Republic of Azerbaijan represent the amount of obligatory reserves deposited with the Central Bank of the Republic of Azerbaijan in accordance with requirements established by the Central Bank of the Republic of Azerbaijan, which subject to restrictions on their availability. In view of the above the amount of the minimum reserve deposit required by the Central Bank of the Republic of Azerbaijan is not included as a cash equivalent in the statement of cash flows.

Loans and deposits to banks

Loans and deposits to banks are recorded when the Bank advances money to counterparty banks. Loans to banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Loans to customers

Loans to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans to customers into one of the following measurement categories:

- (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and
- (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 26 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Credit related commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

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Loan commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

Investments in debt securities

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

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

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

Equity instruments at FVOCI

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. 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 recognized in profit or loss as other income when the right of the payment has been established, except the Bank benefits from such proceeds as 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.

Property, equipment and intangible assets

Owned assets

Items of property, equipment and intangible assets are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property, equipment and intangible assets comprises major components having different useful lives, they are accounted for as separate items property, equipment and intangible assets.

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Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss.

A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized in other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	30 to 35 years
Leasehold improvement	14 years
Equipment	4 years
Fixtures and fittings	5 years
Vehicles	5 years
Other fixed assets	5 years
Right-of-use assets	over the term of the underlying lease

Derecognition of property and equipment items

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

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 7 to 10 years.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

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 recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognizes 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 re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term.

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If the ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognizes 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 the lease, if the lease term reflects the Bank exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Deposits and balances from banks and other financial institutions

Amounts due to banks, government and other financial institutions are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost. If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

Subordinated debt

Subordinated debt represents long-term funds attracted by the Bank in domestic market from legal and individuals. The holders of subordinated debt would be subordinate to all other creditors to receive repayment on debt in case of the respective Bank company liquidation. Subordinated debt is carried at amortized cost.

Other borrowed funds

Other borrowed funds represent loans attracted by the Bank on financial markets and trade finance deals. Other borrowed funds are carried at amortized cost.

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Other financial liabilities

Other financial liabilities are derecognized when the obligation under the liability is discharged or cancelled or expires.

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

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

The Bank as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Taxation

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

Current tax

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

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Deferred tax

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

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared.

Dividends that are declared after the reporting date are treated as a subsequent event under International Accounting Standard 10 “Events after the Reporting Date” (“IAS 10”) and disclosed accordingly.

Earnings per share

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

Foreign currencies

The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The functional and the presentation currency of the Bank, is the national currency of the Republic of Azerbaijan, Azerbaijani Manats (“AZN”). Monetary assets and liabilities are translated into the Bank’s functional currency at the official exchange rate of the CBAR at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank’s functional currency at year-end official exchange rates of the CBAR, are recognized in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

	December 31, 2024	December 31, 2023
AZN/1 US Dollar	1.7000	1.7000
AZN/1 Euro	1.7724	1.8766

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Repossessed collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed collateral is initially recognized at an amount equal to the carrying amount of a loan for which it was pledged. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Bank's statement of financial position include revaluation surplus for buildings and net unrealized loss on investment securities.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Staff costs and related contributions

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

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

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

Measurement of ECL allowance

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 26. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default (“PD”), exposure at default (“EAD”), and loss given default (“LGD”), as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. For details of ECL measurement including incorporation of forward-looking information refer to Note 26.

Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts)

For certain loan facilities, the Bank's exposure to credit losses may extend beyond the maximum contractual period of the facility. This exception applies to certain revolving credit facilities, which include both a loan and an undrawn commitment component and where the Bank's contractual ability to demand repayment and cancel the undrawn component in practice does not limit its exposure to credit losses.

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For such facilities, the Bank measures ECLs over the period that the Bank is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this exception requires judgement. Management applied its judgement in identifying the facilities, both retail and commercial, to which this exception applies. The Bank applied this exception to facilities with the following characteristics: (a) there is no fixed term or repayment structure, (b) the contractual ability to cancel the contract is not in practice enforced as a result of day-to-day management of the credit exposure and the contract may only be cancelled when the Bank becomes aware of an increase in credit risk at the level of an individual facility, and (c) the exposures are managed on a collective basis. Further, the Bank applied judgement in determining a period for measuring the ECL, including the starting point and the expected end point of the exposures.

The Bank considered historical information and experience about: (a) the period over which the Bank is exposed to credit risk on similar facilities, including when the last significant modification of the facility occurred and that therefore determines the starting point for assessing SICR, (b) the length of time for related defaults to occur on similar financial instruments following a SICR and (c) the credit risk management actions (e.g the reduction or removal of undrawn limits), prepayment rates and other factors that drive expected maturity. In applying these factors, the Bank segments the portfolios of revolving facilities into sub-groups and applies the factors that are most relevant based on historical data and experience as well as forward-looking information.

Significant increase in credit risk (“SICR”)

In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 26.

Business model assessment

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

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

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

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Assessment whether cash flows are solely payments of principal and interest (“SPPI”)

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

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

The Bank’s loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

Modification of financial assets

When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognized and whether the new recognized loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognized nor reclassified out of the credit-impaired stage.

Initial recognition of related party transactions

In the normal course of business, the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 29.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

Property and equipment carried at revalued amounts

Certain property items (buildings) are measured at revalued amounts. The date of the latest appraisal was December 31, 2017. The management believes that the carrying value of buildings does not exceed its fair value as at December 31, 2024.

Deferred income tax asset recognition

Management of the Bank created valuation allowance against deferred income tax asset in the amount of AZN 815 thousand as at December 31, 2024 (December 31, 2023: AZN 1,912 thousand). The carrying value of deferred income tax liability and asset amounted to AZN 1,139 thousand and AZN 70 thousand as at December 31, 2024 and 2023, respectively.

Valuation of lease liabilities and right of use assets

The application of IFRS 16 requires to make judgements of right-of-use assets and lease liabilities. In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise renewal options (or not to exercise termination options). Assessing whether a contract includes a lease also requires judgement. Estimates are required to determine the appropriate discount rate used to measure lease liabilities.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Bank has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for the year ended December 31, 2024.

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

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

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

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

In May 2023 IASB published “**Supplier Finance Arrangements**” (Amendment to IAS 7 and IFRS 7) – These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity’s liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB’s response to investors’ concerns that some companies’ supplier finance arrangements are not sufficiently visible, hindering investors’ analysis.

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

6. STANDARD AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

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

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

On May 30, 2024, the IASB issued amendments to **IFRS 9 “Financial Instruments”** and **IFRS 7 “Financial Instruments: Disclosures”** concerning the classification and measurement of financial instruments. Key changes include:

- Derecognition of financial liabilities: Allows liabilities settled via electronic transfer to be considered discharged prior to the settlement date under specified criteria.
- Classification of financial assets: Provides guidance on assessing contractual terms for basic lending arrangements, enhances the definition of non-recourse features, and clarifies characteristics of contractually linked instruments.
- Disclosures: Introduces new requirements for equity investments at fair value through OCI and for contingent terms affecting cash flows.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026, with retrospective application allowed and early adoption permitted.

On July 18, 2024, the IASB published **“Annual Improvements to IFRS Accounting Standards – Volume 11”**.

This publication includes the following amendments:

IFRS 1: Clarifications on hedge accounting for first-time adopters.
IFRS 7: Guidance on recognizing gains or losses on derecognition.
IFRS 7: Improved disclosures for deferred differences between fair value and transaction price.
IFRS 7: Enhancements to introduction and credit risk disclosures.
IFRS 9: Clarifications on lessee derecognition of lease liabilities.
IFRS 9: Additional guidance on transaction price determination.
IFRS 10: Clarifications on the determination of a ‘de facto agent.’
IAS 7: Improvements related to the cost method.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026.

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

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

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

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

In May, 2024 the IASB has published the new standard **IFRS 19 “Subsidiaries without Public Accountability: Disclosures”**, which permits a subsidiary to provide reduced disclosures when applying IFRS Accounting Standards in its financial statements. IFRS 19 is optional for subsidiaries that are eligible and sets out the disclosure requirements for subsidiaries that elect to apply it.

An entity is only permitted to apply IFRS 19 when:

- it is a subsidiary;
- it does not have public accountability, and
- its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

The new standard is effective for reporting periods beginning on or after January 1, 2027 with earlier application permitted.

On June 26, 2023, the International Sustainability Standards Board (ISSB) published the first two IFRS Sustainability Disclosure Standards **IFRS S1 “General requirements for the disclosure of sustainability-related financial information”** and **IFRS S2 “Climate-related disclosures”**. The standards contain requirements for the disclosure of material information about an entity's significant sustainability-related risks and opportunities that are necessary for investors to evaluate the entity.

IFRS S1 establishes general requirements with the objective of requiring an entity to disclose information about its sustainability-related risks and opportunities. IFRS S1 prescribes how an entity should prepare and present its sustainability-related financial information. It sets out general requirements for the content and presentation of these disclosures so that the information disclosed is useful to primary users of financial reporting in making decisions about the provision of resources to the entity.

IFRS S2 sets out requirements for identifying, assessing and disclosing information about climate-related risks and opportunities that is useful to the primary users of general-purpose financial reporting.

The two standards are to be applied for reporting periods beginning on or after January 1, 2024. Earlier application is permitted. If an entity applies IFRS S1 earlier, it must disclose this accordingly and apply IFRS S2 at the same time. The mandatory application of the ISSB standards is dependent on their adoption by a jurisdiction into applicable law. This does not affect entities' ability to apply the standards voluntarily (in addition). As at the date of this report, these standards were not adopted by the jurisdiction where the company operates.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

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

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

7. CASH AND CASH EQUIVALENTS

	December 31, 2024	December 31, 2023
Cash on hand	45,331	37,633
Overnight placements with other banks	27,471	5,830
Nostro accounts with other banks	26,582	10,761
Short term deposits in the CBAR with the original maturities up to 90 days	22,031	40,000
Nostro accounts with the CBAR	3,521	5,545
	<u>124,936</u>	<u>99,769</u>
Total cash and cash equivalents	<u>124,936</u>	<u>99,769</u>

As at December 31, 2024, the Bank had one bank (December 31, 2023: nil) where balance exceeded 10% of its equity excluding balances with the CBAR. The gross value of these balances as at December 31, 2024 was AZN 42,564 thousand.

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognize any credit loss allowance for cash and cash equivalents.

8. LOANS AND DEPOSITS TO BANKS

	December 31, 2024	December 31, 2023
Mandatory reserves with the CBAR	20,183	16,152
Blocked correspondent accounts in other banks	678	792
Loans and deposits		
-rated below B+	3,505	3,500
-not rated	8,442	11,311
	<u>32,808</u>	<u>31,755</u>
Gross loans and deposits to banks	<u>32,808</u>	<u>31,755</u>
Less: allowance for expected credit losses	(732)	(853)
	<u>32,076</u>	<u>30,902</u>
Net loans and deposits to banks	<u>32,076</u>	<u>30,902</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) (in thousands of Azerbaijani Manats, unless otherwise indicated)

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

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2024	30,984	-	702	31,686
New assets originated or purchased	1,122	-	-	1,122
As at December 31, 2024	32,106	-	702	32,808

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2024	151	-	702	853
Net change in ECL value	(121)	-	-	(121)
As at December 31, 2024	30	-	702	732

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from banks and other financial institutions during the year ended December 31, 2023 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2023	50,430	-	724	51,154
New assets originated or purchased	1,166	-	-	1,166
Assets repaid	(20,543)	-	(22)	(20,565)
As at December 31, 2023	31,053	-	702	31,755

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2023	190	-	724	914
Net change in ECL value	(39)	-	(22)	(61)
As at December 31, 2023	151	-	702	853

As at December 31, 2024, accrued interest income included in loans and deposits to banks amounted to AZN 24 thousand (December 31, 2023: AZN 13 thousand).

As at December 31, 2024, placements with two local banks (December 31, 2023: two local banks) in the amount of AZN 678 thousand (December 31, 2023: AZN 792 thousand) are blocked accounts.

Concentration of loans and deposits to banks

As at December 31, 2024, the Bank has no bank excluding CBAR, where balances exceeded 10% of its equity.

As at December 31, 2023, the Bank has one bank excluding CBAR, where balances exceeded 10% of its equity. Total amount of these balances is AZN 10,822 thousand.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued)

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Mandatory reserves with the CBAR

The mandatory reserve deposit is a non-interest bearing deposit calculated in accordance with regulations issued by the CBAR and where availability is restricted. Reserves are measured in accordance with regulations issued by the CBAR and equal to 4% and 5% (December 31, 2023: 4% and 5%) of the average qualifying customer accounts balances denominated in AZN and foreign currency, respectively.

9. LOANS TO CUSTOMERS

	December 31, 2024	December 31, 2023
Loans to corporate customers		
Business Loans – Large Corporations	175,390	207,476
Business Loans – Small and Medium-Sized Enterprises (hereinafter SME)	120,064	141,169
Business Loans – Micro	77,886	54,974
Total loans to corporate customers	373,340	403,619
Loans to retail customers		
Loans to entrepreneurs	152,951	108,657
Mortgage loans	129,730	119,752
Car loans	474	480
Others	-	3,705
Total loans to retail customers	283,155	232,594
Gross loans to customers	656,495	636,213
Less: Allowance for expected credit loss	(38,197)	(33,583)
Total loans to customers	618,298	602,630

During the year ended December 31, 2019, the Bank received compensation from the government in the amount of AZN 2,401 thousand for the problematic loans under the Decree. Additionally, the Bank restructured loans in amount of AZN 2,209 thousand under the Decree with 1% of interest and 5 years of maturity. Before restructuring these loans were either written off or presented in Stage 3. The restructured loans were also granted with 1 year of grace period for payment of principal amount as stipulated in the Decree. As the modification of terms of these loans were substantially different from their original conditions, the Bank applied derecognition approach regarding these loans. These loans were recognized as new loans at initial recognition with fair value of AZN 1,402 thousand taking into account prevailing market rates of 18% and classified as POCI. The carrying amount of these loans amounted to AZN 107 thousand and AZN 501 thousand as at December 31, 2024 and 2023, respectively.

As at December 31, 2024 and 2023 the Bank did not have loan which individually exceeded 10% of the Bank's equity.

As at December 31, 2024 and 2023 all loans were granted to companies operating in the Republic of Azerbaijan.

During the years ended December 31, 2024 and 2023 the Bank received non-financial assets by taking possession of collateral it held as security. As at December 31, 2024 and 2023 such assets in the amount of AZN 1,017 thousand and AZN 1,217 thousand, respectively, are included in other assets.

Included in loans to customers accrued interest receivable was in the amount of AZN 6,784 thousand and AZN 6,926 thousand as at December 31, 2024 and 2023, respectively.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

The following table shows reconciliations from the opening to the closing balances of gross loans and the loss allowance of loans to customers as at December 31, 2024:

	2024				
Gross carrying value	Stage 1	Stage 2	Stage 3	POCI	Total
At January 1, 2024	589,450	5,654	40,474	635	636,213
New assets originated or purchased	309,491	3,306	767	-	313,564
Other movements (asset repayment, modification of assets, etc.)	(265,551)	(1,966)	(16,777)	(371)	(284,665)
Transfer to Stage 1	6,477	(1,448)	(5,029)	-	-
Transfer to Stage 2	(2,808)	3,024	(216)	-	-
Transfer to Stage 3	(5,132)	(1,992)	7,124	-	-
Amounts written-off	-	-	(8,617)	-	(8,617)
At December 31, 2024	631,927	6,578	17,726	264	656,495

	2024				
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at January 1, 2024	6,428	571	26,450	134	33,583
New assets originated or purchased	8,202	328	245	-	8,775
Net remeasurement	14,818	82	(10,751)	23	4,172
Transfer to Stage 1	21	(8)	(13)	-	-
Transfer to Stage 2	(301)	311	(10)	-	-
Transfer to Stage 3	(2,086)	(539)	2,625	-	-
Unwinding of discount on present value of ECLs	-	-	284	-	284
Amounts written-off	-	-	(8,617)	-	(8,617)
At December 31, 2024	27,082	745	10,213	157	38,197

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

The following table shows reconciliations from the opening to the closing balances of gross loans and the loss allowance of loans to customers as at December 31, 2023:

	2023				
Gross carrying value	Stage 1	Stage 2	Stage 3	POCI	Total
At January 1, 2023	526,165	2,012	25,647	1,192	555,016
New assets originated or purchased	290,962	2,654	628	-	294,244
Other movements (asset repayment, modification of assets, etc.)	(205,130)	(365)	(6,650)	(557)	(212,702)
Transfer to Stage 1	609	(451)	(158)	-	-
Transfer to Stage 2	(2,138)	2,213	(75)	-	-
Transfer to Stage 3	(21,018)	(409)	21,427	-	-
Amounts written-off	-	-	(345)	-	(345)
At December 31, 2023	589,450	5,654	40,474	635	636,213

	2023				
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at January 1, 2023	11,095	222	13,495	207	25,019
New assets originated or purchased	2,022	173	212	-	2,407
Net remeasurement	4,294	96	2,185	(73)	6,502
Transfer to Stage 1	4	(3)	(1)	-	-
Transfer to Stage 2	(196)	206	(10)	-	-
Transfer to Stage 3	(10,791)	(123)	10,914	-	-
Amounts written-off	-	-	(345)	-	(345)
At December 31, 2023	6,428	571	26,450	134	33,583

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

An analysis of changes in the gross carrying value and corresponding ECL in relation to Business Loans - Large Corporations during the year ended December 31, 2024 is as follows:

	2024			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying value				
Gross carrying value as at January 1, 2024	184,576	-	22,900	207,476
New assets originated or purchased	45,030	2,595	-	47,625
Other movements (asset repayment, modification of assets, etc.)	(63,458)	-	(12,708)	(76,166)
Transfer to Stage 1	4,853	-	(4,853)	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(1,549)	-	1,549	-
Written-off	-	-	(3,545)	(3,545)
At December 31, 2024	169,452	2,595	3,343	175,390

	2024			Total
	Stage 1	Stage 2	Stage 3	
Allowance for ECL of loans to customers				
ECL as at January 1, 2024	4,091	-	15,158	19,249
New assets originated or purchased	7,360	257	-	7,617
Net remeasurement	11,271	-	(10,037)	1,234
Transfer to Stage 1	12	-	(12)	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(773)	-	773	-
Unwinding of discount on present value of ECLs	-	-	60	60
Amounts written off	-	-	(3,545)	(3,545)
At December 31, 2024	21,961	257	2,397	24,615

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

An analysis of changes in the gross carrying value and corresponding ECL in relation to Business Loans - Large Corporations during the year ended December 31, 2023 is as follows:

	2023			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying value				
Gross carrying value as at January 1, 2023	195,023	-	9,814	204,837
New assets originated or purchased	43,317	-	-	43,317
Other movements (asset repayment, modification of assets, etc.)	(37,798)	-	(2,880)	(40,678)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(15,966)	-	15,966	-
At December 31, 2023	184,576	-	22,900	207,476

	2023			Total
	Stage 1	Stage 2	Stage 3	
Allowance for ECL of loans to customers				
ECL as at January 1, 2023	8,860	-	4,153	13,013
New assets originated or purchased	1,170	-	-	1,170
Net remeasurement	3,115	-	1,951	5,066
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(9,054)	-	9,054	-
At December 31, 2023	4,091	-	15,158	19,249

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

	2024			
Gross carrying value	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2024	127,000	2,479	11,690	141,169
New assets originated or purchased	56,382	90	366	56,838
Other movements (asset repayment, modification of assets, etc.)	(68,061)	(1,068)	(3,878)	(73,007)
Transfer to Stage 1	280	(280)	-	-
Transfer to Stage 2	(1,588)	1,747	(159)	-
Transfer to Stage 3	(1,166)	(1,133)	2,299	-
Amounts written-off	-	-	(4,936)	(4,936)
At December 31, 2024	112,847	1,835	5,382	120,064

	2024			
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2024	1,226	118	8,373	9,717
New assets originated or purchased	260	8	88	356
Net remeasurement	733	163	(1,585)	(689)
Transfer to Stage 1	2	(2)	-	-
Transfer to Stage 2	(168)	177	(9)	-
Transfer to Stage 3	(313)	(279)	592	-
Unwinding of discount on present value of ECLs	-	-	90	90
Amounts written-off	-	-	(4,936)	(4,936)
At December 31, 2024	1,740	185	2,613	4,538

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

	2023			
Gross carrying value	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2023	91,176	212	10,948	102,336
New assets originated or purchased	91,712	1,658	115	93,485
Other movements (asset repayment, modification of assets, etc.)	(51,659)	(148)	(2,558)	(54,365)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(784)	784	-	-
Transfer to Stage 3	(3,445)	(27)	3,472	-
Amounts written-off	-	-	(287)	(287)
At December 31, 2023	127,000	2,479	11,690	141,169

	2023			
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2023	1,429	17	6,627	8,073
New assets originated or purchased	306	76	44	426
Net remeasurement	773	(4)	736	1,505
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(41)	41	-	-
Transfer to Stage 3	(1,241)	(12)	1,253	-
Amounts written-off	-	-	(287)	(287)
At December 31, 2023	1,226	118	8,373	9,717

“TURANBANK” OJSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

	2024				
Gross carrying value	Stage 1	Stage 2	Stage 3	POCI	Total
At January 1, 2024	53,364	175	1,376	59	54,974
New assets originated or purchased	64,385	181	153	-	64,719
Other movements (asset repayment, modification of assets, etc.)	(41,159)	(118)	(439)	(38)	(41,754)
Transfer to Stage 1	11	(6)	(5)	-	-
Transfer to Stage 2	(195)	195	-	-	-
Transfer to Stage 3	(450)	(57)	507	-	-
Amounts written-off	-	-	(53)	-	(53)
At December 31, 2024	75,956	370	1,539	21	77,886

	2024				
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at January 1, 2024	138	16	801	10	965
New assets originated or purchased	301	30	62	-	393
Net remeasurement	111	8	(167)	3	(45)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(33)	33	-	-	-
Transfer to Stage 3	(178)	(23)	201	-	-
Unwinding of discount on present value of ECLs	-	-	47	-	47
Amounts written-off	-	-	(53)	-	(53)
At December 31, 2024	339	64	891	13	1,307

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

	2023				
Gross carrying value	Stage 1	Stage 2	Stage 3	POCI	Total
At January 1, 2023	38,088	73	1,180	129	39,470
New assets originated or purchased	44,982	93	71	-	45,146
Other movements (asset repayment, modification of assets, etc.)	(29,255)	(21)	(294)	(70)	(29,640)
Transfer to Stage 1	12	(12)	-	-	-
Transfer to Stage 2	(83)	83	-	-	-
Transfer to Stage 3	(380)	(41)	421	-	-
Amounts written-off	-	-	(2)	-	(2)
At December 31, 2023	53,364	175	1,376	59	54,974

	2023				
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at January 1, 2023	92	5	862	18	977
New assets originated or purchased	116	11	17	-	144
Net remeasurement	24	5	(175)	(8)	(154)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(5)	5	-	-	-
Transfer to Stage 3	(89)	(10)	99	-	-
Amounts written-off	-	-	(2)	-	(2)
At December 31, 2023	138	16	801	10	965

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

	2024				
Gross carrying value	Stage 1	Stage 2	Stage 3	POCI	Total
At January 1, 2024	103,858	918	3,305	576	108,657
New assets originated or purchased	122,752	440	248	-	123,440
Other movements (asset repayment, modification of assets, etc.)	(78,838)	(403)	508	(333)	(79,066)
Transfer to Stage 1	83	(57)	(26)	-	-
Transfer to Stage 2	(555)	562	(7)	-	-
Transfer to Stage 3	(1,067)	(412)	1,479	-	-
Amounts written-off	-	-	(80)	-	(80)
At December 31, 2024	146,233	1,048	5,427	243	152,951

	2024				
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at January 1, 2024	381	103	1,516	124	2,124
New assets originated or purchased	147	33	95	-	275
Net remeasurement	160	43	1,157	20	1,380
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(71)	71	-	-	-
Transfer to Stage 3	(421)	(143)	564	-	-
Unwinding of discount on present value of ECLs	-	-	71	-	71
Amounts written-off	-	-	(80)	-	(80)
At December 31, 2024	196	107	3,323	144	3,770

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

	2023				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value					
At January 1, 2023	104,486	970	2,324	1,063	108,843
New assets originated or purchased	85,049	492	442	-	85,983
Other movements (asset repayment, modification of assets, etc.)	(84,379)	(610)	(658)	(487)	(86,134)
Transfer to Stage 1	105	(77)	(28)	-	-
Transfer to Stage 2	(380)	399	(19)	-	-
Transfer to Stage 3	(1,023)	(256)	1,279	-	-
Amounts written-off	-	-	(35)	-	(35)
At December 31, 2023	103,858	918	3,305	576	108,657

	2023				
	Stage 1	Stage 2	Stage 3	POCI	Total
Allowance for ECL of loans to customers					
ECL as at January 1, 2023	254	88	1,183	189	1,714
New assets originated or purchased	290	51	151	-	492
Net remeasurement	247	1	(230)	(65)	(47)
Transfer to Stage 1	1	(1)	-	-	-
Transfer to Stage 2	(46)	48	(2)	-	-
Transfer to Stage 3	(365)	(84)	449	-	-
Amounts written-off	-	-	(35)	-	(35)
At December 31, 2023	381	103	1,516	124	2,124

“TURANBANK” OJSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

	2024			
Gross carrying value	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2024	117,113	1,920	719	119,752
New assets originated or purchased	20,915	-	-	20,915
Other movements (asset repayment, modification of assets, etc.)	(10,525)	(215)	(197)	(10,937)
Transfer to Stage 1	1,250	(1,105)	(145)	-
Transfer to Stage 2	(470)	520	(50)	-
Transfer to Stage 3	(900)	(390)	1,290	-
At December 31, 2024	127,383	730	1,617	129,730

	2024			
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2024	590	334	147	1,071
New assets originated or purchased	133	-	-	133
Net remeasurement	2,544	(132)	(85)	2,327
Transfer to Stage 1	7	(6)	(1)	-
Transfer to Stage 2	(29)	30	(1)	-
Transfer to Stage 3	(401)	(94)	495	-
Unwinding of discount on present value of ECLs	-	-	16	16
At December 31, 2024	2,844	132	571	3,547

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

	2023			
Gross carrying value	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2023	95,227	701	882	96,810
New assets originated or purchased	23,621	249	-	23,870
Other movements (asset repayment, modification of assets, etc.)	(1,132)	470	(245)	(907)
Transfer to Stage 1	492	(362)	(130)	-
Transfer to Stage 2	(891)	947	(56)	-
Transfer to Stage 3	(204)	(85)	289	-
Amounts written-off	-	-	(21)	(21)
At December 31, 2023	117,113	1,920	719	119,752

	2023			
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2023	460	112	194	766
New assets originated or purchased	138	35	-	173
Net remeasurement	135	94	(76)	153
Transfer to Stage 1	3	(2)	(1)	-
Transfer to Stage 2	(104)	112	(8)	-
Transfer to Stage 3	(42)	(17)	59	-
Amounts written-off	-	-	(21)	(21)
At December 31, 2023	590	334	147	1,071

“TURANBANK” OJSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

	2024			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying value				
Gross carrying value as at January 1, 2024	47	-	433	480
New assets originated or purchased	27	-	-	27
Other movements (asset repayment, modification of assets, etc.)	(18)	-	(12)	(30)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written off	-	-	(3)	(3)
At December 31, 2024	56	-	418	474

	2024			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL of loans to customers				
ECL as at January 1, 2024	2	-	433	435
New assets originated or purchased	1	-	-	1
Net remeasurement	(1)	-	(12)	(13)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written off	-	-	(3)	(3)
At December 31, 2024	2	-	418	420

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

	2023			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying value				
Gross carrying value as at January 1, 2023	10	-	456	466
New assets originated or purchased	42	-	-	42
Other movements (asset repayment, modification of assets, etc.)	(5)	-	(23)	(28)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written-off	-	-	-	-
At December 31, 2023	47	-	433	480

	2023			Total
	Stage 1	Stage 2	Stage 3	
Allowance for ECL of loans to customers				
ECL as at January 1, 2023	-	-	456	456
New assets originated or purchased	2	-	-	2
Net remeasurement	-	-	(23)	(23)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written-off	-	-	-	-
At December 31, 2023	2	-	433	435

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

	2024			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying value				
Gross carrying value as at January 1, 2024	3,492	162	51	3,705
New assets originated or purchased	-	-	-	-
Other movements (asset repayment, modification of assets, etc.)	(3,492)	(162)	(51)	(3,705)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At December 31, 2024	-	-	-	-

	2024			Total
	Stage 1	Stage 2	Stage 3	
Allowance for ECL of loans to customers				
ECL as at January 1, 2024	-	-	22	22
New assets originated or purchased	-	-	-	-
Net remeasurement	-	-	(22)	(22)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At December 31, 2024	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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

	2023			
Gross carrying value	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2023	2,155	56	43	2,254
New assets originated or purchased	2,239	162	-	2,401
Other movements (asset repayment, modification of assets, etc.)	(902)	(56)	8	(950)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At December 31, 2023	3,492	162	51	3,705

	2023			
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2023	-	-	20	20
New assets originated or purchased	-	-	-	-
Net remeasurement	-	-	2	2
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At December 31, 2023	-	-	22	22

“TURANBANK” OJSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) (in thousands of Azerbaijani Manats, unless otherwise indicated)

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Bank:

	December 31, 2024	December 31, 2023
Loans collateralized by real estate	323,755	329,063
Loans collateralized by guarantees of individuals	90,733	91,083
Loans collateralized by precious metals	69,223	49,151
Loans collateralized by cash	16,612	14,818
Loans collateralized by others	14,709	17,088
Loans collateralized by vehicles	474	1,658
Unsecured loans	140,989	133,352
Gross loans to customers	656,495	636,213
Less: Allowance for expected credit loss	(38,197)	(33,583)
Total loans to customers	618,298	602,630

10. INVESTMENT SECURITIES

	Average coupon interest rates	December 31, 2024	December 31, 2023
Debt securities at FVOCI			
Debt Security of the Ministry of Finance	6.00%	17,754	37,727
Debt Securities of Kapital Bank OJSC	10.00%	8,717	-
Debt securities of the SOCAR	4.50%	1,078	1,073
US Treasury Bill	3.88%	855	-
Debt Security of Bank Respublika OJSC	-	-	1,289
Debt Security of International Bank of Azerbaijan	-	-	990
Equity securities at FVOCI		28,404	41,079
Corporate shares		523	523
Total investment securities		28,927	41,602

As at December 31, 2024, accrued interest income included in investment securities amounted to AZN 91 thousand (December 31, 2023: AZN 343 thousand).

As at December 31, 2024, the Bank recognized fair value gain on investment securities in the amount of AZN 572 thousand (December 31, 2023: AZN 180 thousand).

An analysis of changes in gross carrying value on investment securities during the year ended December 31, 2024 is as follows:

	Stage 1	Total
Gross carrying value as at January 1, 2024	41,602	41,602
Net change in carrying value	(12,675)	(12,675)
As at December 31, 2024	28,927	28,927

“TURANBANK” OJSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

An analysis of changes in gross carrying value on investment securities during the year ended December 31, 2023 is as follows:

	Stage 1	Total
Gross carrying value as at January 1, 2023	51,703	51,703
Net change in carrying value	<u>(10,101)</u>	<u>(10,101)</u>
As at December 31, 2023	<u>41,602</u>	<u>41,602</u>

There were no transfers between stages in gross carrying values and ECL allowance on investment securities during the years ended December 31, 2024 and 2023.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

11. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Land and buildings	Leasehold improvement	Equipment	Fixtures and fittings	Vehicles	Other fixed assets	Computer software	Total
At cost								
January 1, 2023	27,038	4,549	3,054	4,426	671	142	1,497	41,377
Additions	1,875	73	911	551	94	21	325	3,850
Disposals	-	-	(156)	(102)	(13)	(31)	(9)	(311)
December 31, 2023	28,913	4,622	3,809	4,875	752	132	1,813	44,916
Additions	8,566	82	787	293	-	47	361	10,136
December 31, 2024	37,479	4,704	4,596	5,168	752	179	2,174	55,052
Accumulated depreciation and amortization								
January 1, 2023	(3,704)	(1,927)	(2,279)	(2,936)	(466)	(124)	(615)	(12,051)
Depreciation charge	(1,275)	(363)	(411)	(461)	(79)	(18)	(233)	(2,840)
Disposals	-	-	156	102	13	29	9	309
December 31, 2023	(4,979)	(2,290)	(2,534)	(3,295)	(532)	(113)	(839)	(14,582)
Depreciation charge	(1,726)	(356)	(511)	(495)	(69)	(17)	(199)	(3,373)
December 31, 2024	(6,705)	(2,646)	(3,045)	(3,790)	(601)	(130)	(1,038)	(17,955)
Net book value								
As at December 31, 2024	<u>30,774</u>	<u>2,058</u>	<u>1,551</u>	<u>1,378</u>	<u>151</u>	<u>49</u>	<u>1,136</u>	<u>37,097</u>
As at December 31, 2023	<u>23,934</u>	<u>2,332</u>	<u>1,275</u>	<u>1,580</u>	<u>220</u>	<u>19</u>	<u>974</u>	<u>30,334</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) (in thousands of Azerbaijani Manats, unless otherwise indicated)

As at December 31, 2024 included in the closing balance of property, plant and equipment were fully depreciated assets still in use with the total initial cost of AZN 5,207 thousand (December 31, 2023: AZN 5,115 thousand).

As at December 31, 2024 and 2023, included in property, equipment and intangible assets insured in the amount of AZN 33,903 thousand and AZN 23,621 thousand, respectively.

Included in the carrying amount of the land and buildings category of property, equipment and intangible assets the amount of AZN 3,501 thousand is the carrying value of right-of-use assets for eighteen branches office area as at December 31, 2024 (December 31, 2023: eighteen branches; AZN 2,930 thousand).

Revalued assets

The fair values of the Bank's buildings are categorized into Level 3 of the fair value hierarchy.

The last revaluation of buildings was held based on the results of an independent appraisal performed by “FM Consulting” LLC at December 31, 2017. The basis used for the appraisal was the market approach. The market approach was based upon an analysis of the results of comparable sales of similar buildings. The values assigned to the key assumptions represent management's assessment of future business trends and are based on both external sources and internal sources of information.

The carrying value of buildings as at December 31, 2024, if the buildings would not have been revalued, would be AZN 27,448 thousand (December 31, 2023: AZN 20,659 thousand).

Intangible assets include software and licenses.

12. OTHER ASSETS

	December 31, 2024	December 31, 2023
Receivables from intermediary	2,176	1,266
Items in course of settlement	518	1,389
Receivables for plastic cards	153	351
Other	245	76
Total other financial assets	3,092	3,082
Repossessed collateral	1,017	1,217
Numerative coins	451	623
Prepayment for the purchase of fixed assets	412	372
Prepayment for the purchase of intangible assets	314	111
Prepayment for services	249	431
Tax prepayment	145	868
Others	24	38
Total other non-financial assets	2,612	3,660
Total other assets	5,704	6,742

Receivables for plastic cards represent net funds receivable from other local banks for cash withdrawn from the Bank's ATMs by customers of other banks.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

13. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2024	December 31, 2023
Term placement	46,693	21,663
Loro accounts	28,781	60,420
Restricted deposits	1,022	1,022
Total deposits and balances from banks and other financial institutions	<u>76,496</u>	<u>83,105</u>

As at December 31, 2024 and 2023 the Bank does not have a deposit in another bank with a balance of more than 10% of its equity.

As at December 31, 2024 the Bank has deposits from one non-bank credit organization (December 31, 2023: one non-bank credit organization), with balance exceeding 10% of its equity. Total amount of these balances in term placement is AZN 46,693 thousand (December 31, 2023: AZN 21,663 thousand) with the interest rates of 1.5%, 2%, 5%, 6% and 7% (December 31, 2023: 1.5%, 2% and 7%) with the maturity within 2 years (December 31, 2023: within 2 years). Total amount of balances in loro accounts with the same counterparty is AZN 28,497 thousand (December 31, 2023: AZN 59,438 thousand).

Included in deposits and balances from banks and other financial institutions in the amount of AZN 136 thousand and AZN 50 thousand as at December 31, 2024 and 2023, respectively, represent accrued interest payable.

14. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	December 31, 2024	December 31, 2023
Current accounts and demand deposits		
- Retail	58,040	52,430
- Corporate	85,122	45,614
	<u>143,162</u>	<u>98,044</u>
Term deposits		
- Retail	322,060	352,870
- Corporate	1,117	12,735
	<u>323,177</u>	<u>365,605</u>
Total current accounts and deposits from customers	<u>466,339</u>	<u>463,649</u>

Economic sector concentrations within customer accounts are as follows:

	December 31, 2024	December 31, 2023
Analysis by economic sector/customer type:		
Individuals	379,568	405,300
Trade and services	72,258	34,585
Construction and real estate	13,961	13,383
Financial institutions	104	90
State organization	1	9,176
Others	447	1,115
Total customer accounts	<u>466,339</u>	<u>463,649</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) (in thousands of Azerbaijani Manats, unless otherwise indicated)

Included in customer accounts in the amount of AZN 264,860 thousand and AZN 268,624 thousand as at December 31, 2024 and 2023, respectively are deposits secured by the Azerbaijan Deposit Insurance Fund.

As at December 31, 2024, the Bank maintained customer deposit balances of AZN 38,848 thousand (December 31, 2023: AZN 33,610 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Bank.

As at December 31, 2024, the Bank had 4 customers (December 31, 2023: 3 customers), with balances exceeding 10% of its equity. Total amount of these balances was AZN 47,864 thousand (December 31, 2023: AZN 41,617 thousand).

Included in current accounts and deposits from customers in the amount of AZN 5,685 thousand and AZN 6,505 thousand as at December 31, 2024 and 2023, respectively is accrued interest payable.

As at December 31, 2024 and 2023 the Bank had interest bearing current accounts in the amount of AZN 21,052 thousand and AZN 13,401 thousand, respectively.

15. SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS

As at December 31, 2024 and 2023, the balance of subordinated borrowings was as follows:

	Currency	Maturity date	Interest rate	December 31, 2024	December 31, 2023
Subordinated borrowings from individuals	USD, AZN	2026-2031	6.00-11.00%	25,144	11,506
Subordinated borrowings from legal entities	USD, AZN	2028-2029	6.00-7.00%	3,497	430
Total subordinated borrowings				28,641	11,936

Included in subordinated borrowings in the amount of AZN 316 thousand and AZN 88 thousand as at December 31, 2024 and 2023, respectively was accrued interest payable.

As at December 31, 2024 and 2023, the balance of other borrowed funds was as follows:

	Currency	Maturity date	Interest rate	December 31, 2024	December 31, 2023
The Azerbaijan Mortgage and Credit Guarantee Fund	AZN	2054	1.00% - 8.00%	112,304	101,139
Entrepreneurship Development Fund	AZN	2030	1.00%	17,691	25,131
*EMF MICROFINANCE FUND AGMVK	AZN-USD	2025-2027	6.00%-12.75%	10,194	7,220
Agro Credit and Development Agency	AZN	2028	2.00%-2.50%	8,541	6,831
Islamic Development Corporation	USD	2025	7.48%-8.10%	7,115	15,371
*ECO Trade and Development Bank	EUR	2025	5.96%	6,213	3,640
*The Black Sea Trade and Development Bank	USD	2025	8.11%	5,224	8,784
*INCOFIN CVSO	AZN-USD	2025	7.40%-10.5%	4,496	9,018
The Central Bank of the Republic of Azerbaijan (CBAR)	AZN	-	0.10% - 7.50%	-	516
Other				-	224
Total other borrowed funds				171,778	177,874

Compliance with covenants – the Bank has agreed to comply with certain financial and business covenants in various financing and similar agreements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) (in thousands of Azerbaijani Manats, unless otherwise indicated)

* As at December 31, 2024, the Bank was in breach of certain covenants with financing arrangements with outstanding balances amounting to AZN 10,194 thousand, all of which were included under “on demand” category in liquidity analysis disclosed in Note 25. The Management believes that although there is a breach in covenants, the lenders will not exercise their right to withdraw the funds earlier.

Included in other borrowed funds in the amount of AZN 681 thousand and AZN 976 thousand as at December 31, 2024 and 2023, respectively is accrued interest payable.

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

	Other borrowed funds	Subordinated borrowings	Total
Balance at January 1, 2023			
Changes from financing cash flows	157,993	12,374	170,367
Receipt of other borrowed funds and subordinated borrowings	97,072	1,088	98,160
Repayment of other borrowed funds and subordinated borrowings	(77,144)	(1,513)	(78,657)
Total changes from financing cash flows	19,928	(425)	19,503
Other changes			
Interest expense	7,730	1,012	8,742
Interest paid	(7,777)	(1,025)	(8,802)
Balance at December 31, 2023	177,874	11,936	189,810
Changes from financing cash flows			
Receipt of other borrowed funds and subordinated borrowings	46,346	25,328	71,674
Repayment of other borrowed funds and subordinated borrowings	(52,147)	(8,852)	(60,999)
Total changes from financing cash flows	(5,801)	16,476	10,675
Other changes			
Interest expense	6,833	1,988	8,821
Interest paid	(7,128)	(1,759)	(8,887)
Balance at December 31, 2024	171,778	28,641	200,419

16. LEASE LIABILITY

	December 31, 2024	December 31, 2023
Lease liabilities (current)	1,156	750
Lease liabilities (non-current)	2,640	2,421
Total lease liabilities	3,796	3,171

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) (in thousands of Azerbaijani Manats, unless otherwise indicated)

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

	Minimum lease payments due		
	Within one year	One to ten years	Total
Lease payments	1,219	3,637	4,856
Finance charges	(63)	(997)	(1,060)
Net present value as at December 31, 2024	1,156	2,640	3,796

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

	Minimum lease payments due		
	Within one year	One to ten years	Total
Lease payments	1,032	2,990	4,022
Finance charges	(282)	(569)	(851)
Net present value as at December 31, 2023	750	2,421	3,171

A reconciliation of the opening and closing amounts of lease liabilities with relevant cash and non-cash changes from financing activities for the year ended December 31, 2024 is stated below:

	As at January 1, 2024	Cash flow	Non-cash changes	Non-cash changes	As at December 31, 2024
		<i>Principal and interest paid</i>	<i>Interest expense</i>	<i>New leases</i>	
Lease liability	3,171	(1,148)	334	1,439	3,796

A reconciliation of the opening and closing amounts of lease liabilities with relevant cash and non-cash changes from financing activities for the year ended December 31, 2023 is stated below:

	As at January 1, 2023	Cash flow	Non-cash changes	Non-cash changes	Non-cash changes	As at December 31, 2023
		<i>Principal and interest paid</i>	<i>Interest expense</i>	<i>New leases</i>	<i>Disposal</i>	
Lease liability	2,269	(921)	265	1,695	(137)	3,171

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) (in thousands of Azerbaijani Manats, unless otherwise indicated)

17. OTHER LIABILITIES

	December 31, 2024	December 31, 2023
Financial liabilities		
Amounts in the course of settlement	1,286	2,601
Payables to creditors	1,076	1,022
Payables to the Deposit Insurance Fund	602	667
Salaries payable	542	547
Others	122	115
Total financial liabilities	3,628	4,952
Payable to state and local funds	535	378
Taxes payable	576	1,298
ECL on guarantees and other commitments*	785	625
Others	1	13
Total other liabilities	5,525	7,266

*An analysis of changes in the ECL allowance on commitments and contingencies during the year ended December 31, 2024 and 2023 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2024	625	-	-	625
Change in ECL	160	-	-	160
As at December 31, 2024	785	-	-	785
	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2023	135	-	-	135
Change in ECL	490	-	-	490
As at December 31, 2023	625	-	-	625

There were no transfers between stages on commitments and contingencies during the years ended December 31, 2024 and 2023.

18. SHARE CAPITAL

	Number of outstanding ordinary shares	Ordinary shares	Share premium	Total
As at January 1, 2023	73,942	80,005	724	80,729
As at December 31, 2023	73,942	80,005	724	80,729
Shares issued	18,485	20,001	-	20,001
As at December 31, 2024	92,427	100,006	724	100,730

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

As at December 31, 2024, the authorized, issued and outstanding share capital comprises 92,427 ordinary shares (December 31, 2023: 73,942). All shares have a nominal value of AZN 1,082 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank. In 2024, the Bank did not declare dividends on ordinary shares (December 31, 2023: nil).

19. EARNINGS PER SHARE

Basic and diluted earnings per share

	December 31, 2024	December 31, 2023
Earnings per share		
Basic and diluted earnings per share (AZN per share)	96	11

The calculation of basic and diluted earnings per share as at December 31, 2024 is based on the earnings attributable to ordinary shareholders in the amount of AZN 7,966 thousand (December 31, 2023: AZN 811 thousand), and weighted average number of ordinary shares outstanding of 82,957 (December 31, 2023: 73,942) calculated as follows:

	December 31, 2024	December 31, 2023
Net profit attributable to ordinary shares (in thousands)	<u>7,966</u>	<u>811</u>
Weighted average number of ordinary shares for the year ended December 31	<u>82,957</u>	<u>73,942</u>
Earnings per share (AZN)	<u><u>96</u></u>	<u><u>11</u></u>

20. NET INTEREST INCOME

	Year ended December 31, 2024	Year ended December 31, 2023
Interest income calculated using the effective interest method:		
Loans to customers	80,273	70,932
Cash and cash equivalents	4,229	4,803
Investment securities	2,089	2,784
Loans and deposits to banks	599	629
Guarantees	<u>581</u>	<u>295</u>
Total interest income calculated using the effective interest method	<u>87,771</u>	<u>79,443</u>
Interest expense calculated using the effective interest method:		
Current accounts and deposits from customers	(36,717)	(36,376)
Other borrowed funds	(6,833)	(7,730)
Subordinated borrowings	(1,988)	(1,012)
Deposits and balances from banks and other financial institutions	(1,771)	(1,770)
Lease liability	<u>(334)</u>	<u>(265)</u>
Total interest expense calculated using the effective interest method	<u>(47,643)</u>	<u>(47,153)</u>
Net interest income before expected credit losses	<u><u>40,128</u></u>	<u><u>32,290</u></u>

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FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued)

(in thousands of Azerbaijani Manats, unless otherwise indicated)

21. NET FEE AND COMMISSION INCOME

	Year ended December 31, 2024	Year ended December 31, 2023
Fee and commission income:		
Settlements	5,490	3,221
Cash withdrawal	2,377	1,602
Plastic cards	1,464	1,291
Foreign exchange	711	216
Guarantee and letter of credit issuance	512	223
Servicing customers' accounts	219	95
Others	53	51
	<u>10,826</u>	<u>6,699</u>
Fee and commission expense:		
Plastic cards	(1,775)	(1,875)
Payment systems	(1,645)	(1,446)
Settlements	(1,447)	(714)
Cash collection	(573)	(460)
Brokerage operations	(122)	(92)
Guarantee and letter of credit issuance	(30)	(28)
	<u>(5,592)</u>	<u>(4,615)</u>
Total fee and commission income	<u>5,234</u>	<u>2,084</u>

22. PERSONNEL EXPENSES

	Year ended December 31, 2024	Year ended December 31, 2023
Employee compensation	(17,559)	(15,429)
Payments to State Social Security Fund	(2,620)	(2,282)
	<u>(20,179)</u>	<u>(17,711)</u>
Total personnel expenses	<u>(20,179)</u>	<u>(17,711)</u>

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FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued)

(in thousands of Azerbaijani Manats, unless otherwise indicated)

23. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2024	Year ended December 31, 2023
Advertising and marketing	(4,815)	(4,234)
Depreciation and amortization	(3,373)	(2,840)
Professional fees	(1,110)	(579)
Communication expenses	(790)	(754)
Security expenses	(741)	(573)
Printing and office supplies	(375)	(443)
Repair and maintenance	(330)	(315)
Taxes, other than income tax	(285)	(283)
Sponsorship expenses	(206)	(206)
Vehicle running costs	(202)	(189)
Utilities	(165)	(111)
Business trip expenses	(105)	(101)
Operating lease expenses	(51)	(31)
Insurance expenses	(49)	(48)
Membership expenses	(44)	(49)
Charity expenses	(4)	(103)
Others	(99)	(124)
Total general and administrative expenses	<u>(12,744)</u>	<u>(10,983)</u>

24. INCOME TAXES

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2024 and 2023 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Republic of Azerbaijan on taxable profits (as defined) under tax law in that jurisdiction.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) (in thousands of Azerbaijani Manats, unless otherwise indicated)

Deferred income tax assets/(liabilities) as at December 31, 2024 comprise:

	Balance at December 31, 2024
Deferred income tax assets in relation to:	
Unused tax losses carried forward	815
Lease liability	759
Provision for possible guarantees and other commitments	157
Other liability	105
Investment securities	5
Other assets	17
Total deferred income tax assets	<u>1,858</u>
Deferred income tax liabilities in relation to:	
Other assets	
Loans to customers	(1,423)
Right-of-use assets	(700)
Loans and deposits to banks	(37)
Property, equipment and intangible assets	(22)
Total deferred income tax liabilities	<u>(2,182)</u>
Deferred income tax liability	<u>(324)</u>
Deferred income tax asset not recognized	(815)
Net deferred income tax liabilities	<u>(1,139)</u>

Deferred income tax assets/(liabilities) as at December 31, 2023 comprise:

	Recognized in profit or loss	Recognized in OCI	Balance at December 31, 2023
Deferred income tax assets in relation to:			
Loans to customers	1,626	-	1,626
Lease liability	635	-	635
Other liability	198	-	198
Provision for possible guarantees and other commitments	94	-	94
Investment securities	(13)	77	64
Total deferred income tax assets	<u>2,540</u>	<u>77</u>	<u>2,617</u>
Deferred income tax liabilities in relation to:			
Right-of-use assets	(586)	-	(586)
Property, equipment and intangible assets	(21)	-	(21)
Loans and deposits to banks	(13)	-	(13)
Other assets	(8)	-	(8)
Other borrowed funds	(7)	-	(7)
Total deferred income tax liabilities	<u>(635)</u>	<u>-</u>	<u>(635)</u>
Deferred income tax asset	<u>1,905</u>	<u>77</u>	<u>1,982</u>
Deferred income tax asset not recognized	(1,912)	-	(1,912)
Net deferred income tax asset/(liabilities)	<u>(7)</u>	<u>77</u>	<u>70</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

The effective tax rate reconciliation is as follows for the years ended December 31, 2024 and 2023:

	Year ended December 31, 2024	Year ended December 31, 2023
Profit before income tax	<u>10,589</u>	<u>1,148</u>
Tax at the statutory tax rate (20%)	(2,118)	(229)
Revision of prior year tax estimation	(1,491)	-
Change in valuation allowance	1,097	-
Tax effect of permanent differences	<u>(111)</u>	<u>(108)</u>
Income tax expense	<u>(2,623)</u>	<u>(337)</u>
Current income tax expense	(1,491)	(348)
Deferred income tax expense recognized in the current year	<u>(1,132)</u>	<u>11</u>
Income tax expense	<u>(2,623)</u>	<u>(337)</u>
	Year ended December 31, 2024	Year ended December 31, 2023
Deferred income tax (liability)/asset		
As at January 1 – deferred income tax asset	70	95
Change in deferred income tax balances recognized in profit or loss	(1,132)	11
Change in deferred income tax balances recognized in OCI	<u>(77)</u>	<u>(36)</u>
As at December 31- deferred income tax (liability)/asset	<u>(1,139)</u>	<u>70</u>

25. RISK MANAGEMENT

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

Risk management policies and procedures

The risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervisory Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures according to the set limits.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the CEO.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees depending on the type and amount of the exposure.

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

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Deputy of CEO. Market risk limits are approved by ALCO based on recommendations of the Risk Management Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Supervisory Board.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) (in thousands of Azerbaijani Manats, unless otherwise indicated)

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non- interest bearing	Carrying amount
December 31, 2024							
ASSETS							
Cash and cash equivalents	49,511	-	-	-	-	75,425	124,936
Loans and deposits to banks	6,794	-	4,410	-	-	20,872	32,076
Loans to customers	82,684	67,477	118,965	249,730	93,050	6,392	618,298
Investment securities	10,134	18,270	-	-	-	523	28,927
Other financial assets	-	-	-	-	-	3,092	3,092
	149,123	85,747	123,375	249,730	93,050	106,304	807,329
LIABILITIES							
Deposits and balances from banks and other financial institutions	38,627	-	34,459	2,100	-	1,310	76,496
Current accounts and deposits from customers	60,477	35,353	101,444	146,030	357	122,678	466,339
Other borrowed funds	13,508	2,985	11,494	51,727	92,064	-	171,778
Subordinated borrowings	317	-	-	10,844	17,480	-	28,641
Lease liability	304	297	555	2,270	370	-	3,796
Other financial liabilities	-	-	-	-	-	3,628	3,628
	113,233	38,635	147,952	212,971	110,271	127,616	750,678
	35,890	47,112	(24,577)	36,759	(17,221)	(21,312)	56,651
December 31, 2023							
ASSETS							
Cash and cash equivalents	57,211	-	-	-	-	42,558	99,769
Loans and deposits to banks	-	2,793	4,395	6,770	-	16,944	30,902
Loans to customers	114,898	62,733	100,751	230,582	87,104	6,562	602,630
Investment securities	8,615	6,615	7,321	18,528	-	523	41,602
Other financial assets	-	-	-	-	-	3,082	3,082
	180,724	72,141	112,467	255,880	87,104	69,669	777,985
LIABILITIES							
Deposits and balances from banks and other financial institutions	72,420	-	-	9,615	-	1,070	83,105
Current accounts and deposits from customers	87,118	55,427	141,548	111,500	372	67,684	463,649
Other borrowed funds	47,759	18,298	2,451	36,856	72,510	-	177,874
Subordinated borrowings	88	-	-	10,233	1,615	-	11,936
Lease liability	198	192	359	2,071	351	-	3,171
Other financial liabilities	-	-	-	-	-	4,952	4,952
	207,583	73,917	144,358	170,275	74,848	73,706	744,687
	(26,859)	(1,776)	(31,891)	85,605	12,256	(4,037)	33,298

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Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at December 31, 2024 and 2023. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2024			2023		
	Average effective interest rate, %			Average effective interest rate, %		
	AZN	USD	Other currencies	AZN	USD	Other currencies
Interest bearing assets						
Cash and cash equivalents	6.25	4.25	2.90	6.50	5.30	3.80
Loans and deposits to banks	7.00	3.88	-	7.00	4.00	-
Loans to customers	12.10	3.28	1.34	13.53	6.16	6.68
Investment securities	6.81	4.22	-	6.10	4.71	-
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Term deposits	2.29	1.81	1.50	2.83	2.00	1.50
Current accounts and deposits from customers						
- Current accounts and demand deposits	3.61	3.43	1.04	4.13	3.78	2.17
- Term deposits	11.10	3.03	0.76	10.86	2.53	0.75
Other borrowed funds	3.51	7.64	5.96	2.34	7.47	-
Subordinated borrowings	8.95	7.39	-	-	7.73	-
Lease liability	-	10.00	-	-	10.00	-

Interest rate sensitivity analysis

The Bank is exposed to interest rate risk because entity borrows at both floating and fixed interest rates. The Bank manages the risk by maintaining a mix between fixed and floating rate borrowings.

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS Accounting Standards.

The ALMC controls currency risk managing the open currency position on the estimated basis of USD devaluation and other macroeconomic indicators, which gives the Bank possibility 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.

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The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2024:

	AZN	USD	EUR	Other currencies	Total
FINANCIAL ASSETS					
Cash and cash equivalents	42,390	36,546	41,163	4,837	124,936
Loans and deposits to banks	19,051	13,025	-	-	32,076
Loans to customers	546,808	70,597	893	-	618,298
Investment securities	26,994	1,933	-	-	28,927
Other financial assets	2,961	42	10	79	3,092
Total assets	638,204	122,143	42,066	4,916	807,329
FINANCIAL LIABILITIES					
Deposits and balances from banks and other financial institutions	64,335	9,465	2,683	13	76,496
Current accounts and deposits from customers	344,143	84,099	33,847	4,250	466,339
Other borrowed funds	148,716	16,849	6,213	-	171,778
Subordinated borrowings	10,841	17,800	-	-	28,641
Lease liability	3,796	-	-	-	3,796
Other financial liabilities	2,901	717	10	-	3,628
Total liabilities	574,732	128,930	42,753	4,263	750,678
Net position	63,472	(6,787)	(687)	653	56,651

The following table shows the currency structure of financial assets and liabilities as at December 31, 2023:

	AZN	USD	EUR	Other currencies	Total
FINANCIAL ASSETS					
Cash and cash equivalents	57,243	26,196	13,412	2,918	99,769
Loans and deposits to banks	14,941	15,961	-	-	30,902
Loans to customers	523,383	77,846	1,401	-	602,630
Investment securities	33,202	8,400	-	-	41,602
Other financial assets	1,947	387	4	744	3,082
Total assets	630,716	128,790	14,817	3,662	777,985
FINANCIAL LIABILITIES					
Deposits and balances from banks and other financial institutions	67,144	13,063	2,887	11	83,105
Current accounts and deposits from customers	387,897	67,741	6,826	1,185	463,649
Other borrowed funds	136,985	40,889	-	-	177,874
Subordinated borrowings	-	11,936	-	-	11,936
Lease liability	3,171	-	-	-	3,171
Other financial liabilities	4,050	392	2	508	4,952
Total liabilities	599,247	134,021	9,715	1,704	744,687
Net position	31,469	(5,231)	5,102	1,958	33,298

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Supervisory Board.

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Credit risk management

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

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and credit conversion factors.

Limits. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Groups of borrowers, and to geographical and industry segments.

Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Bank established a number of credit committees that are responsible for approving credit limits for individual borrowers. Depending on the magnitude of credit risk, the decisions on transactions with corporate clients are approved either by the Main Credit Committee or the Small Credit Committee. These committees convene weekly. In certain circumstances (for example, based on tenor or size) loans are approved by the Executive Board Director or the Board of Directors.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the officers based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Executive Board or the Board of Directors.

Expected credit loss (ECL) measurement – definitions

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 determined by evaluating a range of possible outcomes.

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

Lifetime period – the maximum period over which ECL should be measured. For loans with fixed maturity, the lifetime period is equal to the remaining contractual period. For loan commitments and financial guarantee contracts, this is the maximum contractual period over which an entity has a present contractual obligation to extend credit. For credit cards issued to individuals, it is the period that is based on internal statistics, and it is equal to 3 years.

Lifetime ECL – losses that result from all possible default events over the remaining lifetime period of the financial instrument.

12-month ECL – the portion of lifetime ECLs that represent the ECLs resulting from default events on a financial instrument that are possible within 12 months after the reporting date that are limited by the remaining contractual life of the financial instrument.

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

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Credit Conversion Factor (CCF) – a coefficient that shows that the probability of conversion of an off-balance sheet amounts to exposure on the balance within a defined period. It can be calculated for a 12-month or lifetime period. Based on the analysis performed, the Bank considers that 12-month and lifetime CCFs are the same.

Purchased or originated credit impaired (POCI) financial assets – financial assets that are credit-impaired upon initial recognition.

Low credit risk financial assets – assets that have an investment grade defined by external rating agencies or corresponding internal rating, debt instruments issued by Azerbaijan Republic and nominated in AZN, loans to companies owned by Azerbaijan Republic and nominated in AZN. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

Default and credit-impaired asset – a loan is in default, meaning fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the loan is restructured less than 6 months ago and is 31-90 days past due on its contractual payments;
- the borrower has the external rating below Caa2;
- the Bank considers to sell the borrower's debt with significant losses (more than 5% of the debt principal balance and accrued interest);
- other information available on borrower bankruptcy or default.

The Credit Committee decides on recognition of the borrower as credit-impaired one based on the unlikelihood-to-pay criteria listed below:

- the borrower is insolvent;
- it is becoming likely that the borrower will enter bankruptcy;
- other criteria reflecting difficulties with successful fulfilling of obligations by the borrower.

An instrument is considered to no longer be in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of six months.

Significant increase in credit risk (SICR) – the SICR assessment is performed on an individual basis and on a portfolio basis. For loans issued to legal entities and individuals, interbank loans and debt securities accounted for at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Bank's Risk Management Committee.

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

For loans issued to legal entities and bonds issued by the legal entities, interbank operations and bonds issued by the banks:

- 31-90 days past due;
- Restructured and 6-30 days past due;
- Monitoring suggests borrower has financial difficulties.

For loans to individuals:

- 31-60 days past due;
- Restructured and 6-30 days past due.

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If there is evidence that the SICR criteria are no longer met and this has lasted at least 3 months, the instrument will be 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.

ECL measurement – description of estimation techniques

General principle

For non-POCI financial assets, ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether the credit risk of the borrower has increased significantly since initial recognition. This approach can be summarized in a three-stage model for ECL measurement:

Stage 1: a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition; loss allowance is based on 12-month ECLs.

Stage 2: if a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but not yet deemed to be credit-impaired; loss allowance is based on lifetime ECLs.

Stage 3: if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3 and loss allowance is based on lifetime ECLs.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), so at the reporting date, the Bank only recognizes the cumulative changes in lifetime expected credit losses.

The Bank can carry out three separate approaches for ECL measurement:

- assessment on an individual basis;
- assessment on a portfolio basis;
- assessment based on external ratings.

The Bank performs an assessment on an individual basis for the following types of loans issued to legal entities: loans with unique credit risk characteristics, individually significant loans and credit-impaired loans.

The Bank performs an assessment on a portfolio basis for the following types of assets: loans and credit-related commitments issued to legal entities (standard lending, specialized lending, loans to leasing companies, etc.), interbank loans, retail loans and loans issued to SMEs. This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information.

The Bank performs assessments on external ratings for the following types of loans: interbank loans, debt securities issued by the banks, legal entities and sovereigns, loans issued to sovereigns.

Principles of assessment on individual basis – ECL assessments on an individual basis are done by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Bank defines at least two possible outcomes for each loan, one of which leads to credit loss in spite of the probability of such a scenario. Individual assessment is mainly based on the expert judgement of the Problem Loans Collection Department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

Principles of assessment on portfolio basis – to assess the staging of exposure and to measure a loss allowance on a collective basis, the Bank combines its exposures into segments on the basis of shared credit risk characteristics, such as that exposures to risk within a group are homogeneous.

Examples of shared characteristics include: type of customer (such as income producing real estate or leasing companies), product type (such as credit cards or cash loans), credit risk rating and date of initial recognition.

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The different segments reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Committee.

In general, ECL is the multiplication of the following credit risk parameters: EAD, PD and LGD (definitions of the parameters are provided above). The general approach used for ECL calculation is stated below. It could be applied for products assessed on a portfolio basis and for products for which the bank has credit risk ratings assessment based on borrower-specific information.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for the next 12 months or instrument lifetime. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has been repaid or defaulted in an earlier period).

The brief principles of calculating the credit risk parameters are as following.

The EADs are determined based on the expected payment profile, which varies by product type:

- for amortizing products and bullet repayment loans, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
- 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.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD:

- 12-month PDs – the estimated probability of a default occurring within the next 12 months (or over the remaining life of the financial instrument if less than 12 months). This parameter is used to calculate 12-month ECLs. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for forward-looking information when appropriate.
- Lifetime PDs – the estimated probability of a default occurring over the remaining life of the financial instrument. This parameter is used to calculate lifetime ECLs for Stage 2 exposures. An assessment of a Lifetime PD is based on the latest available historic default data and adjusted for forward looking information when appropriate.

To calculate Lifetime PD, the Bank uses different statistical approaches depending on the segment and product type, such as the extrapolation of 12-month PDs based on migration matrixes and developing lifetime PD curves based on the historical default data. For lifetime PD calculations, the Bank uses historical default data and the extrapolation of trends for longer periods during which default data was not available.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the product, overdue days 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;
- individually defined LGD depending on different factors and scenarios.

For loans secured by real estate the Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors.

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For particular segments of the corporate, retail, interbank loan portfolio and corporate bonds LGD is calculated on a collective basis based on the latest available recovery statistics.

ECL measurement for off-balance sheet financial instruments, CCF for undrawn credit lines of legal entities, credit cards issued to individuals and financial guarantees is defined based on statistical analysis of exposure at default.

CCF for credit lines is defined as 20% for short-term limits and as 50% for long-term limits.

Principles of assessment based on external ratings – the principles of ECL calculations based on external ratings are the same as for their assessment on a portfolio basis. Since the clients have defined the external credit rating, credit risk parameters (PD) could be taken from the default and recovery statistics published by international rating agencies.

Forward-looking information incorporated in the ECL models. The assessment of the SICR and the calculation of ECLs both incorporate forward-looking information. The Bank has performed historical analyses and identified the key economic variables impacting credit risk and ECLs for each portfolio.

The Bank used a base economic scenario that normally in line with budgeting, strategic and capital plans and for other aspects of managing and reporting. As there was no significant relationship between bank's NPL rates and macro variable, Bank sector's non-performing loans were used when building a macroeconomic model. Real GDP growth was used as an explanatory variable.

Based on them the Bank's Risk Management Department makes the forecast of future macroeconomic conditions, which is considered by the management of the Bank to define the next coming stage of economic cycle using not only statistical approach but also expert judgement of the management.

The assessment of SICR is performed using the Lifetime PD for retail borrowers and 12-month PD for other financial assets, 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 the relevant ECL model.

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 analyzed the nonlinearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Validation. The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such validation is performed at least once a year. The results of validation the ECL measurement methodology are communicated to the Bank management and further steps for tuning models and assumptions are defined after discussions between authorized persons.

Assessment of loss allowance for credit related commitments. Assessment of loss allowance for credit related commitments is performed on a similar basis with balance sheet exposures by application of credit conversion factor (CCF) if the counterparty has current balance sheet exposure. Statistical information and Basel Committee values are used for calculation of CCF. If the counterparty does not have balance sheet exposure the assessment of expected credit loss allowance is performed on an individual or collective basis depending on the amount of exposure by applying CCF.

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

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The maximum exposure to credit risk from financial assets as at December 31, 2024:

	December 31, 2024	Offset (cash and gold collateral)	Net exposure after offset	Collateral pledged	Net exposure
FINANCIAL ASSETS					
Cash and cash equivalents (excluding cash on hand)	79,605	-	79,605	-	79,605
Loans and deposits to banks	32,076	-	32,076	-	32,076
Loans to customers	618,298	16,612	601,686	460,697	140,989
Investment securities	28,927	-	28,927	-	28,927
Other financial assets	3,092	-	3,092	-	3,092
Total maximum exposure	761,998	16,612	745,386	460,697	284,689

The maximum exposure to credit risk from financial assets as at December 31, 2023:

	December 31, 2023	Offset (cash and gold collateral)	Net exposure after offset	Collateral pledged	Net exposure
FINANCIAL ASSETS					
Cash and cash equivalents (excluding cash on hand)	62,136	-	62,136	-	62,136
Loans and deposits to banks	30,902	-	30,902	-	30,902
Loans to customers	602,630	14,818	587,812	454,460	133,352
Investment securities	41,602	-	41,602	-	41,602
Other financial assets	3,082	-	3,082	-	3,082
Total maximum exposure	740,352	14,818	725,534	454,460	271,074

Off-balance sheet risk

The Bank applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Geographical concentration

The Assets and Liabilities Management Committee (“ALMC”) exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank’s activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan.

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The geographical concentration of assets and liabilities is set out below:

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2024 Total
FINANCIAL ASSETS				
Cash and cash equivalents	71,828	46,711	6,397	124,936
Loans and deposits to banks	32,076	-	-	32,076
Loans to customers	618,298	-	-	618,298
Investment securities	28,072	855	-	28,927
Other financial assets	3,092	-	-	3,092
Total financial assets	753,366	47,566	6,397	807,329
FINANCIAL LIABILITIES				
Deposits and balances from banks and other financial institutions	76,494	2	-	76,496
Current accounts and deposits from customers	455,316	267	10,756	466,339
Other borrowed funds	138,535	15,934	17,309	171,778
Subordinated borrowings	28,641	-	-	28,641
Lease liability	3,796	-	-	3,796
Other financial liabilities	3,628	-	-	3,628
Total financial liabilities	706,410	16,203	28,065	750,678
NET POSITION ON FINANCIAL INSTRUMENTS	46,956	31,363	(21,668)	56,651

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	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2023 Total
FINANCIAL ASSETS				
Cash and cash equivalents	85,560	8,066	6,143	99,769
Loans and deposits to banks	30,902	-	-	30,902
Loans to customers	602,630	-	-	602,630
Investment securities	41,602	-	-	41,602
Other financial assets	3,082	-	-	3,082
Total financial assets	763,776	8,066	6,143	777,985
FINANCIAL LIABILITIES				
Deposits and balances from banks and other financial institutions	83,105	-	-	83,105
Current accounts and deposits from customers	463,649	-	-	463,649
Other borrowed funds	133,617	20,067	24,190	177,874
Subordinated borrowings	11,936	-	-	11,936
Lease liability	3,171	-	-	3,171
Other financial liabilities	4,952	-	-	4,952
Total financial liabilities	700,430	20,067	24,190	744,687
NET POSITION ON FINANCIAL INSTRUMENTS	63,346	(12,001)	(18,047)	33,298

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Collateral

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 commercial lending, charges over real estate properties and inventory.
- For retail lending, mortgages over residential properties.

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 impairment losses.

Renegotiated loans and advances

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

Credit quality by class of financial asset

The following table details credit ratings of financial assets held by the Bank:

	A+	A	BBB	<BBB	Not rates	Total
December 31, 2024						
Cash and cash equivalents (excluding cash on hand)	603	-	-	75,382	3,620	79,605
Loans and deposits to banks	-	-	-	24,174	7,902	32,076
Loans to customers	-	-	-	-	618,298	618,298
Investment securities	-	855	-	27,549	523	28,927
Other financial assets	-	-	-	-	3,092	3,092
December 31, 2023						
Cash and cash equivalents (excluding cash on hand)	-	-	-	62,136	-	62,136
Loans and deposits to banks	-	-	-	20,125	10,777	30,902
Loans to customers	-	-	-	-	602,630	602,630
Investment securities	-	-	-	41,079	523	41,602
Other financial assets	-	-	-	-	3,082	3,082

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at December 31, 2024 and 2023, the balances with the CBAR amounted to AZN 45,735 thousand and AZN 61,697 thousand, respectively. The credit rating of the Republic of Azerbaijan according to the international rating agencies in 2024 corresponded to BBB- (December 31, 2023: BBB-).

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Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, Loans and deposits to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Treasury Department.

The following tables detail the Bank's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

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	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	December 31, 2024 Total
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	40,077	270	404	34,917	2,118	77,786
Current accounts and deposits from customers	161,590	29,695	41,996	111,644	157,491	502,416
Other borrowed funds	11,955	2,915	4,336	13,853	209,504	242,563
Subordinated borrowings	188	693	565	1,130	35,994	38,570
Lease liability	103	206	309	601	3,636	4,855
Other financial liabilities	3,628	-	-	-	-	3,628
Total financial liabilities	217,541	33,779	47,610	162,145	408,743	869,818
Credit related commitments and guarantees	116,937	-	-	-	-	116,937
	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	December 31, 2023 Total
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	70,618	2,031	44	640	10,118	83,451
Current accounts and deposits from customers	120,914	38,088	65,180	146,268	129,023	499,473
Other borrowed funds	46,619	2,886	4,526	10,272	145,342	209,645
Subordinated borrowings	169	162	243	486	14,535	15,595
Lease liability	92	184	265	490	2,899	3,930
Other financial liabilities	4,952	-	-	-	-	4,952
Total financial liabilities	243,364	43,351	70,258	158,156	301,917	817,046
Credit related commitments and guarantees	60,170	-	-	-	-	60,170

In accordance with Azerbaijani legislation, individuals and legal entities can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates.

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at December 31, 2024:

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	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Maturity undefined	Total
ASSETS							
Cash and cash equivalents	124,936	-	-	-	-	-	124,936
Loans and deposits to banks	11	6,794	4,410	-	-	20,861	32,076
Loans to customers	38,741	50,335	186,442	249,730	93,050	-	618,298
Investment securities	4,054	6,080	18,270	-	-	523	28,927
Other financial assets	3,092	-	-	-	-	-	3,092
Total assets	170,834	63,209	209,122	249,730	93,050	21,384	807,329
LIABILITIES							
Deposits and balances from banks and other financial institutions	39,937	-	34,459	2,100	-	-	76,496
Current accounts and deposits from customers	151,262	23,934	133,641	141,541	355	15,606	466,339
Other borrowed funds	11,524	1,984	14,479	51,727	92,064	-	171,778
Subordinated borrowings	-	317	-	10,844	17,480	-	28,641
Lease liability	102	202	852	2,270	370	-	3,796
Other financial liabilities	3,628	-	-	-	-	-	3,628
Total liabilities	206,453	26,437	183,431	208,482	110,269	15,606	750,678
Net position	(35,619)	36,772	25,691	41,248	(17,219)	5,778	56,651
Cumulative net position up to 5 years	(35,619)	1,153	26,844	68,092	50,873	56,651	

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The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at December 31, 2023:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Maturity undefined	Total
FINANCIAL ASSETS							
Cash and cash equivalents	99,769	-	-	-	-	-	99,769
Loans and deposits to banks	-	-	7,188	6,770	-	16,944	30,902
Loans to customers	61,635	59,823	163,484	230,582	87,106	-	602,630
Investment securities	52	8,576	13,931	18,520	-	523	41,602
Other financial assets	3,082	-	-	-	-	-	3,082
Total financial assets	164,538	68,399	184,603	255,872	87,106	17,467	777,985
FINANCIAL LIABILITIES							
Deposits and balances from banks and other financial institutions	70,589	2,000	552	9,964	-	-	83,105
Current accounts and deposits from customers	121,628	31,161	189,217	107,870	372	13,401	463,649
Other borrowed funds	45,066	1,766	21,676	36,856	72,510	-	177,874
Subordinated borrowings	88	-	-	10,233	1,615	-	11,936
Lease liability	66	133	552	2,069	351	-	3,171
Other financial liabilities	4,952	-	-	-	-	-	4,952
Total financial liabilities	242,389	35,060	211,997	166,992	74,848	13,401	744,687
Net position	(77,851)	33,339	(27,394)	88,880	12,258	4,066	33,298
Cumulative net position up to 5 years	(77,851)	(44,512)	(71,906)	16,974	29,232	33,298	

The key measure used by the Bank for managing liquidity risk is the liquidity ratio stipulated by the CBAR.

The Bank calculates this mandatory liquidity ratio on a daily basis in accordance with the requirement of the CBAR. This ratio is represented by the instant liquidity ratio, which is calculated as the ratio of highly liquid assets to liabilities payable on demand. For other borrowed funds being classified as on demand refer to Note 15.

26. CAPITAL MANAGEMENT

The CBAR sets and monitors capital requirements for the Bank.

Under the current capital requirements set by the CBAR in January 1, 2015, existing banks have to hold the minimum level of aggregate capital of AZN 50,000 thousand, however, paid-in capital for newly established banks and local branches of foreign banks shall be AZN 50,000,000. Furthermore, the banks have to maintain a ratio of regulatory capital to risk weighted assets (“statutory capital ratio”) at or above a prescribed minimum of 10% (December 31, 2023: 10%) and maintain a ratio of tier-1 capital to the risk-weighted assets (the “Tier-1 capital ratio”) at or above the prescribed minimum of 5% (December 31, 2023: 5%).

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The Bank maintains capital adequacy at the level appropriate to the nature and volume of its operations. The Bank provides the CBAR with information on mandatory ratios in accordance with set form. Risk department controls on a daily basis compliance with capital adequacy ratios. In case values of capital adequacy ratios become close to set limits set by the CBAR and Bank's internal policy this information is communicated to the Supervisory Board. The Bank's aggregate capital reported to the CBAR as at December 31, 2024 was AZN 120,561 thousand (December 31, 2023 was AZN 85,116 thousand), (Statutory capital ratio 11.72% and Tier-1 capital ratio 9.65%). The financial Information used in calculation of capital ratios set by the CBAR may differ from IFRS figures.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at December 31:

	December 31, 2024	December 31, 2023
Tier 1 capital		
Share capital	100,006	80,005
Share premium	724	724
Accumulated deficit	(17,016)	(17,827)
Less: Intangible assets	(1,136)	(974)
Total tier 1 capital	82,578	61,928
Tier 2 capital		
Current year profit	7,966	811
Reserves (1.25% of Risk-weighted assets)	9,841	8,946
Property revaluation reserve	1,644	1,644
Subordinated borrowings (unamortized portion)	22,195	7,887
Total tier 2 capital	41,646	19,288
Less: Investments	523	(523)
Total capital	124,747	80,693
Risk-weighted assets		
On-balance sheet	787,296	715,683
Off-balance sheet	31,146	10,435
Total risk weighted assets	818,442	726,118
Total capital expressed as a percentage of risk-weighted assets (total capital ratio), (minimum 10%)	15%	11%
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio), (minimum 5%)	10%	9%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Bank. The Bank has complied with all externally imposed capital requirements as at December 31, 2024 and 2023.

27. CREDIT RELATED COMMITMENTS

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

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The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit-related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	December 31, 2024	December 31, 2023
Contracted amount		
Loan and credit line commitments	12,621	12,985
Guarantees and letters of credit	<u>105,101</u>	<u>47,810</u>
Less: provisions for ECL for related commitments	<u>(785)</u>	<u>(625)</u>
Total exposure	<u>116,937</u>	<u>60,170</u>

The total outstanding contractual credit-related commitments above do not necessarily represent future cash requirements, as these credit-related commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional credit related commitment by the Bank.

Credit related commitments are denominated in currencies as follows:

	December 31, 2024	December 31, 2023
Contracted amount		
Azerbaijani manats	108,552	56,616
US Dollars	5,755	3,456
Euro	<u>2,630</u>	<u>98</u>
Total exposure	<u>116,937</u>	<u>60,170</u>

28. COMMITMENTS AND CONTINGENCIES

Compliance with covenants

The Bank has agreed to comply with certain financial and business covenants in various financing and similar agreements.

As at December 31, 2024 the Bank was in breach of certain covenants with several financing arrangements with outstanding balances amounting to AZN 10,194 thousand, all of which were included under on demand category in liquidity analysis disclosed in Note 25.

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Capital commitment

During the year ended December 31, 2024 the Bank purchased a new building for administrative purposes. The new building requires capital repair works in order to be available for use. The management could not estimate the cost of repair works as at December 31, 2024.

Litigation

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.

Taxation contingencies

The taxation system in the Republic of Azerbaijan is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

Operating environment

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

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

The economy of Azerbaijan expanded 4.1% year-on-year in the January-December period 2024, accelerating from a 1.1% growth in the same period last year. The non-oil and gas sector increased by 6.2%, while the oil and gas sector rose slightly 0.3%. From the production side, the strongest contributions came from industry (35.9 %) and retail trade (10.7 %). Additional support was seen in transportation & storage (7.0%) and construction (6.7 %).

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

GDP reached AZN 126.3 billion (USD 74.3 billion) in 2024 with 4.1% growth compared to 2023. During the eleven months of 2024 foreign trade turnover of the Republic of Azerbaijan reached about USD 47.6 billion of which export amounted to USD 26.6 billion and import amounted USD 21.1 billion according to the statistics of the State Customs Committee.

By the end of December 2024, number of active plastic cards increased to a historic high of 19,899 thousand compared to 16,925 thousand in 2023.

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International credit rating agencies regularly evaluate the credit rating of the Republic of Azerbaijan. “Fitch” and “S&P” evaluated the rating of the Republic of Azerbaijan as “BBB-”. “Moody’s Investors Service” set a “Ba1” credit rating for the country.

The future economic growth of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The Management is unable to predict, all developments in the economic environment which would have an impact on the Bank’s operations and consequently what effect, if any, they could have on the financial position of the Bank.

29. RELATED PARTY TRANSACTIONS

(a) Control Relationships

The Bank does not have an ultimate controlling party.

Transactions with the members of the Supervisory Board and the Management Board

Total remuneration included in personnel expenses for the years ended December 31, 2024 and 2023 is as follows:

	2024	2023
Short-term employee benefits	<u>1,173</u>	<u>776</u>
	<u>1,173</u>	<u>776</u>

These amounts include cash benefits in respect of the members of the Supervisory and Management Board.

The outstanding balances and average effective interest rates as at December 31, 2024 and 2023 for transactions with the members of the Management Board are as follows:

	December 31, 2024	Average effective interest rate, %	December 31, 2023	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	229	8.59	81	22.24
Allowance for ECL of loans to customers	(1)		(1)	
Current accounts and deposits received	816	9.64	1,678	11.63

Amounts included in profit/(loss) in relation to transactions with the members of the Management Board for the year ended December 31 are as follows:

	2024	2023
Profit/(loss)		
Interest income	16	4
Interest expense	-	(131)
Net gain from trading in foreign currency	-	1

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued) (in thousands of Azerbaijani Manats, unless otherwise indicated)

Transactions with shareholders

The Bank disclosed outstanding balances and the related average interest rates as at December 31, 2024 and 2023 and related profit or loss amounts of transactions for the year ended December 31, 2024 and 2023 with other shareholders (holding 5% or more of shares of the Bank):

	2024		2023	
	Amount	Average interest rate, %	Amount	Average interest rate, %
Statement of financial position				
ASSETS				
Loans to customers				
- in AZN:				
Principal balance	15,514	7.22	20,060	7.32
Allowance for ECL of loans to customers	(1,887)		(530)	
LIABILITIES				
Current accounts and deposits from customers	6,296	8.51	4,670	8.24
Subordinated borrowings	4,079	8.16	2,470	10.00
Profit/(loss)				
Interest income	970		1,412	
Interest expense	(301)		(564)	
(Charge)/recovery of expected credit losses	(1,357)		(332)	

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS Accounting Standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	December 31, 2024	December 31, 2023			
Investment securities (debt securities)	28,404	41,079	Level 1	Quoted bid prices in an active market	n/a
Investment securities (corporate shares)	523	523	Level 3	FCFE	CF projection Discount rate

There were no transfers between Level 1 and 2 in the period.

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Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the Management considers that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

	December 31, 2024		December 31, 2023	
	Carrying value	Fair value	Carrying value	Fair value
Loans and deposits to banks	32,076	32,076	30,902	30,902
Loans to customers	618,298	618,298	602,630	602,630
Deposits and balances from banks	76,496	76,496	83,105	83,105
Current accounts and deposits from customers	466,339	466,339	463,649	463,649
Other borrowed funds	171,778	171,778	177,874	177,874
Subordinated borrowings	28,641	28,641	11,936	11,936

	December 31, 2024			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Cash and cash equivalents	124,936	-	-	124,936
Loans and deposits to banks	-	32,076	-	32,076
Loans to customers	-	-	618,298	618,298
Other financial assets	-	-	3,092	3,092
Financial liabilities:				
Deposits and balances from banks	-	76,496	-	76,496
Current accounts and deposits from customers	-	-	466,339	466,339
Other borrowed funds	-	171,778	-	171,778
Subordinated borrowings	-	-	28,641	28,641
Lease liability	-	-	3,796	3,796
Other financial liabilities	-	-	3,628	3,628
	December 31, 2023			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Cash and cash equivalents	99,769	-	-	99,769
Loans and deposits to banks	-	30,902	-	30,902
Loans to customers	-	-	602,630	602,630
Other financial assets	-	-	3,082	3,082
Financial liabilities:				
Deposits and balances from banks	-	83,105	-	83,105
Current accounts and deposits from customers	-	-	463,649	463,649
Other borrowed funds	-	177,874	-	177,874
Subordinated borrowings	-	-	11,936	11,936
Other financial liabilities	-	-	4,952	4,952

The fair values of the financial assets and financial liabilities included in the Level 2 and 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties. The Bank using available market information, where it exists, and appropriate valuation methodologies has determined the estimated fair values of financial instruments. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

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31. EVENTS AFTER THE REPORTING PERIOD

On January 7, 2025, the CBAR implemented a new prudential framework allowing banks to lend to individuals and private entrepreneurs based on behavioral income forecasts. The regulation includes requirements for model development, validation, and reporting, along with stricter classification and capital requirements. Lending under this framework is capped at 10% of a bank's loan portfolio and must be suspended if delinquency on such loans exceeds 10%.

On January 28, 2025, the CBAR approved new rules for managing operational risk, effective from March 12, 2025. Banks must maintain an operational risk database, report significant incidents promptly, conduct annual employee training, and test their business continuity plans, reporting results to their Supervisory Boards.