

OJSC Kapital Bank

Consolidated financial statements

*Year ended 31 December 2024
together with independent auditor's report*

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Independent auditor's report

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Independent auditor's report

To the Shareholders and Supervisory Board of
OJSC Kapital Bank

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of OJSC Kapital Bank and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2024, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



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Key audit matter

How our audit addressed the key audit matter

Allowance for loans to customers and provision for credit related commitments

Given the significance of the allowance for loans to customers and provision for credit related commitments to the Group's financial position, the complexity and judgments related to the estimation of expected credit losses ("ECL") under IFRS 9 Financial Instruments ("IFRS 9"), we considered this area as a key audit matter.

The Group exercises significant judgment and applies estimation techniques to determine probability of default, projected exposure at default and loss arising at default, considering observed historical data, current economic situation and available forward-looking information. The calculation of ECL for financial assets on an individual basis requires scenario analysis of the estimated future cash flows considering current and projected financial performance of the borrowers and value of collateral.

Information on the allowance for expected credit losses on loans to customers and provision for credit related commitments is included in Note 3- *Summary of accounting policies*, Note 4 - *Significant accounting judgments and estimates*, Note 10 - *Loan to customers*, Note 22 - *Commitments and contingencies*, and Note 28 - *Risk management to the consolidated financial statements*.

Our audit procedures, among others, comprised of the following:

- ▶ We evaluated the expected credit loss methodology developed by the Group in accordance with the requirements of IFRS 9 to estimate the allowance for impairment of loans to customers and provisions for credit-related commitments.
- ▶ We analyzed the appropriateness of the Group's definition of default and the criteria for significant increases in credit risk, ensuring consistency in their application in accordance with the methodology.
- ▶ We evaluated the underlying statistical models, key inputs, and assumptions used, and assessed the incorporation of forward-looking information in the calculation of expected credit losses on a collective basis.
- ▶ We analyzed the expected cash flow projections on individually significant loans, including those arising from the potential sale of collateral. In this process, we considered reports prepared by the Group's internal and external appraisers as well as available market information regarding the fair value of collateral.
- ▶ We evaluated the information disclosed in the notes to the consolidated financial statements in relation to the allowance for impairment of loans to customers and provisions for credit-related commitments.

Other information included in the Group's 2024 Annual Report

Other information consists of the information included in the Group's 2024 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2024 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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Responsibilities of management and Audit Committee for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;



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- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- ▶ Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The partner in charge of the audit resulting in this independent auditor's report is Ilgar Veliyev.

Ernst & Young Holdings (CIS) B.V.

Baku, Azerbaijan

27 February 2025

Consolidated statement of financial position**As at 31 December***(Amounts presented are in thousands of Azerbaijani manats)*

	Notes	2024	2023
Assets			
Cash and cash equivalents	7	1,570,330	1,330,391
Amounts due from credit institutions	8	1,552,754	1,296,279
Investment securities	9	2,976,401	1,595,697
Loans to customers	10	4,992,830	4,110,501
Investment in associates	32	-	11,315
Right-of-use assets	13	95,781	32,605
Property and equipment	11	142,960	91,813
Goodwill and Other Intangible assets	12	71,826	40,135
Current income tax assets		9,995	-
Other assets	16	235,199	301,518
Total assets		11,648,076	8,810,254
Liabilities			
Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations	19	514,085	436,904
Amounts due to credit institutions	20	216,921	607,782
Amounts due to customers	17	8,977,152	6,344,489
Current income tax liabilities		-	17,655
Deferred income tax liabilities	14	20,924	15,782
Lease liabilities	13	76,663	39,597
Debt securities issued	18	365,864	59,578
Other liabilities	16	326,209	206,843
Total liabilities		10,497,818	7,728,630
Equity			
Share capital	21	265,850	265,850
Additional paid-in capital		20,870	20,870
Unrealized gain on investment securities		8,332	8,182
Revaluation reserve for premises		2,730	2,400
Retained earnings		861,481	784,517
Total equity attributable to shareholders of the Bank		1,159,263	1,081,819
Non-controlling interest		(9,005)	(195)
Total equity		1,150,258	1,081,624
Total liabilities and equity		11,648,076	8,810,254

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

Farid Huseynov

Chairman of the Executive Board, Chief Executive Officer

Emin Mammadov

Member of the Executive Board, Chief Financial Officer

27 February 2025

The accompanying notes on pages 6 to 73 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss**For the year ended 31 December***(Amounts presented are in thousands of Azerbaijani manats)*

	Notes	2024	2023
Interest income			
Loans to customers at amortised cost		655,081	545,374
Investment securities		80,805	106,061
Cash and cash equivalents		40,194	27,792
Amounts due from credit institutions		2,465	3,744
Interest income calculated using effective interest rate		778,545	682,971
Loans to customers at fair value through profit or loss		117,130	38,541
Other interest income		117,130	38,541
Total interest income		895,675	721,512
Interest expense			
Amounts due to customers		(177,250)	(81,698)
Amounts due to credit institutions		(21,743)	(10,750)
Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations		(11,313)	(8,722)
Lease liabilities	13	(8,247)	(4,855)
Debt securities issued		(15,619)	(3,995)
Other		-	(330)
		(234,172)	(110,350)
Net interest income		661,503	611,162
Credit loss expense on financial assets	15	(57,946)	(17,292)
Net interest income after credit loss expense		603,557	593,870
Fee and commission income	23	504,411	341,121
Fee and commission expense	23	(247,205)	(166,446)
Net fee and commission income	23	257,206	174,675
Net gains from foreign currencies		62,105	55,754
Net gains/(losses) realised on sale of investment securities		1,738	(267)
Net losses on loans to customers at fair value through profit or loss		(7,842)	(568)
Share of losses of associates	32	(1,926)	(13,291)
Other operating income	24	85,763	12,641
Non-interest income		397,044	228,944
Personnel expenses	26	(317,145)	(228,539)
General and administrative expenses	27	(238,762)	(184,384)
Depreciation of property and equipment and amortisation of intangible assets	11, 12	(50,779)	(35,092)
Depreciation of right-of-use assets	13	(17,790)	(10,272)
Charge for impairment for credit related commitments and other impairment, net	15	(4,608)	(619)
Other operating expenses	25	(59,711)	-
Non-interest expenses		(688,795)	(458,906)
Profit before income tax expense		311,806	363,908
Income tax expense	14	(72,624)	(81,805)
Profit for the year		239,182	282,103
Attributable to:			
- shareholders of the Bank		253,076	282,214
- non-controlling interest		(13,894)	(111)
		239,182	282,103

The accompanying notes on pages 6 to 73 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income**For the year ended 31 December***(Amounts presented are in thousands of Azerbaijani manats)*

	Notes	2024	2023
Profit for the year		239,182	282,103
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of debt instruments at fair value through other comprehensive income		(133)	173
Reclassification of cumulative gains on disposal of debt instruments at fair value through other comprehensive income to the income statement		(288)	(26)
Income tax relating to components of other comprehensive income		84	(29)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(337)	118
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Revaluation of premises	11	415	416
Gains on equity instruments at fair value through other comprehensive income		606	1,947
Income tax relating to components of other comprehensive income		(204)	(472)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		817	1,891
Other comprehensive income for the year, net of tax		480	2,009
Total comprehensive income for the year		239,662	284,112
Attributable to:			
- shareholders of the Bank		253,556	284,223
- non-controlling interest		(13,894)	(111)
		239,662	284,112

The accompanying notes on pages 6 to 73 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity**For the year ended 31 December***(Amounts presented are in thousands of Azerbaijani manats)*

	Share capital	Additional paid-in capital	Unrealized gain on investment securities	Revaluation reserve for premises	Retained earnings	Total	Non-controlling interest	Total Equity
1 January 2023	265,850	20,870	6,506	2,067	673,403	968,696	(84)	968,612
Profit / (loss) for the year	-	-	-	-	282,214	282,214	(111)	282,103
Other comprehensive income / (loss) for the year	-	-	1,676	333	-	2,009	-	2,009
Total comprehensive income / (loss) for the year	-	-	1,676	333	282,214	284,223	(111)	284,112
Dividends to shareholders of the Bank (Note 21)	-	-	-	-	(171,100)	(171,100)	-	(171,100)
31 December 2023	265,850	20,870	8,182	2,400	784,517	1,081,819	(195)	1,081,624
Profit / (loss) for the year	-	-	-	-	253,076	253,076	(13,894)	239,182
Other comprehensive income for the year	-	-	150	330	-	480	-	480
Total comprehensive income / (loss) for the year	-	-	150	330	253,076	253,556	(13,894)	239,662
Acquisition of subsidiary	-	-	-	-	-	-	5,084	5,084
Dividends to shareholders of the Bank (Note 21)	-	-	-	-	(176,112)	(176,112)	-	(176,112)
31 December 2024	265,850	20,870	8,332	2,730	861,481	1,159,263	(9,005)	1,150,258

The accompanying notes on pages 6 to 73 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows**For the year ended 31 December***(Amounts presented are in thousands of Azerbaijani manats)*

	<i>Notes</i>	2024	2023
Cash flows from operating activities			
Interest received		907,138	735,589
Interest paid		(204,808)	(101,008)
Fees and commissions received		503,770	336,272
Fees and commissions paid		(248,688)	(163,253)
Net realized gains from foreign currency operations		57,097	65,862
Other operating income received		90,072	11,799
Personnel expenses paid		(313,774)	(218,396)
General and administrative expenses paid		(232,125)	(177,544)
Recoveries of loans to customers previously written off		17,318	16,299
Other operating expenses paid		(69,098)	-
Cash flows from operating activities before changes in operating assets and liabilities		506,902	505,620
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		(251,391)	(898,283)
Loans to customers		(963,142)	(1,108,970)
Other assets		41,232	(148,246)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to customers		2,595,674	176,521
Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations		77,210	32,881
Amounts due to credit institutions		(427,539)	527,585
Other liabilities		120,708	35,085
Net cash flows from / (used in) operating activities before income tax		1,699,654	(877,807)
Income tax paid		(94,807)	(129,862)
Net cash from / (used in) operating activities		1,604,847	(1,007,669)
Cash flows used in investing activities			
Purchase of investment securities		(6,766,340)	(989,694)
Proceeds from sale and redemption of investment securities		5,384,708	1,914,250
Net gains on sale of investment securities		1,738	-
Net cash acquired through acquisition of subsidiary	5	736	-
Investment in associates	32	-	(21,876)
Purchase of property and equipment		(73,898)	(35,867)
Proceeds from sale of property and equipment		842	446
Purchase of intangible assets		(27,852)	(15,943)
Net cash flows used in / (from) investing activities		(1,480,066)	851,316
Cash flows used in financing activities			
Lease liability paid	13	(11,102)	(9,038)
Proceeds from debt securities issued		346,500	-
Redemption of debt securities issued		(42,500)	-
Repayment of subordinated debt		-	(8,500)
Dividends paid to shareholders of the Bank	21	(176,112)	(171,100)
Net cash flows from / (used in) financing activities		116,786	(188,638)
Effect of exchange rates changes on cash and cash equivalents		(1,628)	3,696
Net increase/(decrease) in cash and cash equivalents		239,939	(341,295)
Cash and cash equivalents, opening balance		1,330,391	1,671,686
Cash and cash equivalents, closing balance	7	1,570,330	1,330,391

The accompanying notes on pages 6 to 73 are an integral part of these consolidated financial statements.

(Amounts presented are in thousands of Azerbaijani manats)

1. Principal activities

Open Joint Stock Company Kapital Bank (the “Bank”) was established in accordance with the legislation of the Republic of Azerbaijan. The Bank operates under Banking license No. 244 issued by the Central Bank of the Republic of Azerbaijan (“the CBAR”) on 25 February 2000.

The Bank’s principal business activity is corporate and retail Banking operations. This includes deposit taking and commercial lending in freely convertible currencies and in Azerbaijani manat (“AZN”), transfer payments in Azerbaijan and abroad, support of clients’ export/import transactions, foreign currency exchange and other Banking services to its commercial and retail customers. As at 31 December 2023, the Bank’s network comprised of head office, 118 branches (2023: 118) and 54 divisions (2023: 46).

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

The number of Bank’s employees as at 31 December 2024 was 5,586 (2023: 5,313).

The Bank’s registered legal address is Port Baku Tower II, Neftchilar Avenue 153, Baku, AZ1010, Azerbaijan.

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

Shareholder	2024, %	2023, %
PASHA Holding LLC	99.89	99.89
Individuals	0.11	0.11
Total	100.00	100.00

As at 31 December 2024 and 2023, the Bank is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva, Mr. Arif Pashayev and Mr. Mir Jamal Pashayev, who exercise collective control over the Bank.

BirKart NBCO LLC

As at 31 December 2024 and 2023, the Bank owns 100% of “Birkart non-bank credit organization” Limited Liability Company (the “subsidiary” or “Birkart NBCO”), which was established by the Bank on 3 May 2018 in accordance with the legislation of the Republic of Azerbaijan. During 2024, the Bank additionally paid up in full for 25,246 new AZN 10 shares of the subsidiary and as of 31 December 2024, the share capital of the subsidiary totalled AZN 88,336 (2023: AZN 63,090). The subsidiary is not involved in any lending activity.

Competo LLC

On 6 March 2020 “Birkart NBCO” LLC purchased 25% of the share capital in “Competo” LLC (the “associate”) amounting to AZN 50. “Competo” LLC was established on 9 February 2018 and is operating in retail Banking IT and consulting service.

During 2024, “BirKart NBCO” made an investment of AZN 20,861 in its associate, increasing its percentage of voting shares in “Competo” LLC from 48% to 60.3%. As a result, “Competo” LLC became a subsidiary of the Bank. Subsequently, “BirKart NBCO” made an additional investment of AZN 31,245 in “Competo” LLC during 2024, and the total value of gross investment in subsidiary amounted to AZN 85,996. As of 31 December 2024, the share capital of the subsidiary totalled AZN 122,038 (2023: AZN 69,933) and “BirKart NBCO” owned 70.47% of “Competo” LLC (2023: 48%)

PashaPay LLC

As at 31 December 2024 the Bank owns 99.99% of “PashaPay” LLC (the “subsidiary”), which is operating in the market of electronic payments and cash payment terminals. The Bank became owner of “PashaPay” LLC by purchasing the additional 79% of the share capital through its subsidiary “Birkart NBCO” on 10 March 2022.

During the 2024 year the Bank directly made additional investment in amount of AZN 22,000 to the charter capital of “PashaPay” LLC and as of 31 December 2024, the share capital of the subsidiary totalled AZN 40,222 (2023: AZN 18,022).

OJSC Kapital Bank and its subsidiaries (together – the “Group”) were consolidated in these financial statements.

As at 31 December 2024 and 2023, the subsidiary owns 100% of “Red Hearts” Charity Foundation, which was established on 15 December 2020. As at 31 December 2024, the subsidiary fully paid up issued and outstanding share capital totaling AZN 35 divided into 35 shares, each with a par value of AZN 1. (2023: AZN 35).

(Amounts presented are in thousands of Azerbaijani manats)

2. Basis of preparation

General

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

The Azerbaijani manat is the functional and presentation currency of the Group as the majority of the transactions are denominated, measured, or funded in Azerbaijani manat. Transactions in other currencies are treated as transactions in foreign currencies. The Group maintains its records and prepares its consolidated financial statements in Azerbaijani manat and in accordance with IFRS. These consolidated financial statements are presented in thousands of Azerbaijani manat ("AZN"), except per share amounts and unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention except for premises and investment securities at FVOCI and derivative financial assets and liabilities, which have been measured at fair value.

Estimation uncertainty

To the extent that information is available as at 31 December 2024, the Group has reflected revised estimates of expected future cash flows in its ECL assessment (Note 10), estimation of fair values of financial instruments (Note 29).

3. Summary of accounting policies

Changes in accounting policies

New and amended standards and interpretations

The following amendments to existing IFRS accounting standards became effective for annual periods beginning on 1 January 2024:

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

None of these amendments will have an impact on the Bank's consolidated financial statements at 31 December 2024.

Basis of consolidation

Subsidiaries, which are those entities, which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Fair value measurement

The Group measures financial instruments carried at FVPL and FVOCI and non-financial assets such as premises at fair value at each balance sheet date.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

Financial assets and liabilities

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

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

- ▶ Amortised cost;
- ▶ FVOCI;
- ▶ FVPL.

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

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

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

The details of these conditions are outlined below.

Business model assessment

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

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

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

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

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

The SPPI test

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

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

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

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

Debt instruments at FVOCI

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

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

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

Expected credit losses for debt instruments at FVOCI

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

Equity instruments at FVOCI

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

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

Loans to customers at FVPL

Loans to customers at FVPL are mostly represented by project finance loans that are economically or contractually non-recourse, and loans with embedded derivatives at terms that are inconsistent with basic lending arrangement. Information on fair value measurement of Loans to customers at FVPL is presented in Note 29.

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Financial guarantees, letters of credit and undrawn loan commitments

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

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

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

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

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Provision for Performance guarantees are measured consistent with the measurement of expected credit losses under IFRS 9.

Reclassification of financial assets and liabilities

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBAR, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains from foreign currencies as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in liabilities and non-financial host contracts are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss.

Financial assets are classified based on the business model and SPPI assessments.

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers.

Securities purchased under agreements to resell (“reverse repo”) are recorded as investment securities or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to customers, amounts due to the Central Bank of the Republic of Azerbaijan and government organizations, amounts due to credit institutions and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortization process.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Leases

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

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

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

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

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Leases (continued)

Short-term leases and leases of low-value assets

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

Renegotiated loans

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

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

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

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

Derecognition of financial assets and liabilities

Write-off

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

Taxation

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

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

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

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

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

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Property and equipment

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

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

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

	<u>Years</u>
Premises	20
Leasehold improvements	10
Computers and other office equipment	5
Furniture, fixtures, vehicles and others	5

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

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

Intangible assets

Intangible assets include computer software and licenses.

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

Provisions

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

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Azerbaijan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no significant post-employment benefits.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued and other contributions made by shareholders are recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Segment reporting

The Group's segmental reporting is based on the following operating segments: Corporate, Retail, Treasury and Ecosystem.

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Fees and commissions

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

- ▶ Income earned from the provision of service is recognized as revenue as the service are provided (for example, servicing plastic card operations, settlement operations, cash operations and others);
- ▶ Income which forms an integral part of the effective interest rate of a financial instrument is recognized as an adjustment to the effective interest rate and recorded in 'interest income'.

Customer loyalty programs

The Group offers a number customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Group acts as an agent or as a principal under the contract. For point-based programs, the Group generally recognized a liability for the accumulated points that are expected to be utilized by the customers, which is reversed to profit or loss as the points expire. Cashbacks on plastic card transactions reduce fee and commission income.

Dividend income

Revenue is recognized when the Group's right to receive the payment is established.

Interest income on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest income" in the consolidated statement of profit or loss.

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Foreign currency translation

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

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

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

	<u>2024</u>	<u>2023</u>
1 US dollar	AZN 1.7000	AZN 1.7000
1 euro	AZN 1.7724	AZN 1.8766

4. Significant accounting judgments and estimates

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 29.

Impairment losses on financial assets

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

(Amounts presented are in thousands of Azerbaijani manats)

4. Significant accounting judgments and estimates (continued)

Impairment losses on financial assets (continued)

The Group's internal credit grading model, which assigns PDs to the individual grades;

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

More details are provided in Notes 10 and Note 28.

Leases – estimating the incremental borrowing rate

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

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

Impact of climate risk on accounting judgments and estimates

Where appropriate, the Bank considers climate-related matters in its estimates and assumptions, which may increase their inherent level of uncertainty. This assessment includes a wide range of possible impacts on the Bank due to both physical and transition risks. The Bank and its customers are exposed to the physical risks from climate change and risks of transitioning to a net-zero economy. These risks may involve refinancing and liquidity risks for certain customers in high-risk sectors where financial institutions may seek to reduce their exposures in the future. However, the nature and location of the Bank's counterparties and the underlying collateral limit the impact of this exposure. Even though climate-related risks might not currently have a significant impact on measurement, the Bank is closely monitoring relevant changes and developments.

The items and considerations that are most directly impacted by climate-related matters are:

- ▶ Expected credit losses (ECL): Customers and portfolios with exposure to climate risk may have a resultant deterioration in creditworthiness and a consequential impact on ECL. For example, the measurement of ECL may be affected by physical climate-related risks such as floods or outbreaks of fire which may negatively affect a borrower's ability to repay the loan, or result in a deterioration in the value of underlying collateral pledged. Transition risks may result from government or institutional policy changes, with consequential credit quality deterioration in sectors or countries affected.

An analysis was performed of the exposure of counterparties to these climate risks, which determined that, on the whole, counterparties are not expected to be materially impacted by physical or transition risks associated with climate change. For example, the majority of the counterparties are not employed, or do not operate, in high-risk sectors, nor are they located in high-risk geographical areas. Furthermore, the underlying collaterals for the assets are not expected to be impacted by climate risk as the assets are not in high-risk geographical areas and also have EPC ratings largely in compliance with current regulations.

Taxation

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

(Amounts presented are in thousands of Azerbaijani manats)

5. Business combination

Acquisition of “Competo” LLC

On 5 February 2024, the Group acquired the additional 12% of the voting shares of “Competo” LLC, following the approvals given by the appropriate regulatory authorities and became 60% owner of the entity.

Before the acquisition date, the Group held 48% of the voting shares of “Competo” LLC, which were accounted for as investments in associates. Upon obtaining control over “Competo” LLC, the Group has remeasured the previously held equity interest to fair value and included it in calculation of Goodwill arising on acquisition.

The fair values of the identifiable assets and liabilities of “Competo” LLC as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	26,275
Due from credit institutions	6,510
Intangible assets	1,893
Right-of-use assets	2,264
Premises and equipment	1,808
Other assets	8,862
Total assets	47,612
Liabilities	
Amount due to credit institutions	11,967
Lease liability	2,314
Other liabilities	20,523
Total liabilities	34,804
Total identifiable net assets	12,808

The fair value of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition was:

<i>Goodwill arising on step acquisition</i>	
Purchase consideration transferred	20,861
Fair value of non-controlling interest at acquisition date	5,084
Fair value on previously held equity interests	9,389
Less: Identifiable net assets of the investee at acquisition	(12,808)
Goodwill arising on step acquisition	22,526

The goodwill of AZN 22,526 comprises the value of expected synergies arising from new mobilization system called the "Ecosystem". The Ecosystem integrates the Bank and its subsidiaries into a unified system designed to support seamless operations and improved service delivery. Formation of Ecosystem will centralize customer requests, streamline management, and enhance customer experience resulting to the increase in the Group profitability. No separate intangible assets were identified in the acquisition as none met the recognition criteria under IAS 38. None of the goodwill recognized is expected to be deductible for income tax purposes.

As non-controlling interest represents present ownership interests that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation the Group has elected to measure non-controlling interest in “Competo” LLC at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

(Amounts presented are in thousands of Azerbaijani manats)

5. Business combination (continued)

Acquisition of “Competo” LLC (continued)

Purchase consideration

Cash paid	20,861
Total consideration	20,861
Cash outflow on acquisition of the subsidiary	
Cash acquired with the subsidiary	21,597
Cash consideration paid	20,861
Net cash acquired (included in cash flows from investing activities)	736

From the date of acquisition, “Competo” LLC has incurred a net loss of AZN 40,430 to the Group’s net profit before tax, which includes AZN 79,719 in non-interest income.

If the combination had taken place at the beginning of the year, the profit for the year ended 31 December 2024 of the Group would have been AZN 235,488 and the non-interest income would have been AZN 401,141.

6. Segment reporting

The Group discloses information to enable users of its consolidated financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 *Operating Segments* and other standards that require special disclosures in the form of segmental reporting.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Group’s reportable segments under IFRS 8 are therefore as follows:

- ▶ Corporate Banking – direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products;
- ▶ Retail Banking – private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
- ▶ Treasury – interbank lending and borrowings, securities trading swaps, foreign exchange services, issuance of bonds and promissory notes and other treasury functions;
- ▶ Ecosystem – financial services such as money transfers through terminals and electronic wallet provided by “PashaPay” LLC, marketplace, loyalty bonus, logistics and other development services provided by “Competo” LLC.

(Amounts presented are in thousands of Azerbaijani manats)

6. Segment reporting (continued)

	Corporate		Retail		Treasury		Ecosystem		Unallocated		Total	
	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Interest income	98,742	96,596	673,732	487,319	123,186	137,366	15	231	-	-	895,675	721,512
Interest expense	(116,654)	(53,756)	(75,816)	(39,606)	(36,861)	(15,075)	(1,510)	(348)	(3,331)	(1,565)	(234,172)	(110,350)
Net interest income	(17,912)	42,840	597,916	447,713	86,325	122,291	(1,495)	(117)	(3,331)	(1,565)	661,503	611,162
Credit loss (expense) / reversal	(4,769)	(2,531)	(54,291)	(14,001)	2,841	(174)	(1,748)	(109)	21	(477)	(57,946)	(17,292)
Net interest income after provision for impairment losses	(22,681)	40,309	543,625	433,712	89,166	122,117	(3,243)	(226)	(3,310)	(2,042)	603,557	593,870
Fee and commission income	124,010	104,346	316,203	201,886	1,955	1,335	62,243	33,554	-	-	504,411	341,121
Fee and commission expense	(3,169)	(4,904)	(230,671)	(147,989)	(11,239)	(7,879)	(2,126)	(5,674)	-	-	(247,205)	(166,446)
Net gains from operations in foreign currencies	35,039	27,247	16,905	23,652	487	4,855	9,674	-	-	-	62,105	55,754
Net gains / (losses) realised on sale of investment securities	-	-	-	-	1,738	(267)	-	-	-	-	1,738	(267)
Net losses from loans to customers at fair through profit or loss	-	-	(7,842)	(568)	-	-	-	-	-	-	(7,842)	(568)
Share of loss of associates	-	-	-	-	-	-	(1,926)	(13,291)	-	-	(1,926)	(13,291)
Other operating income	-	-	-	-	-	-	63,884	484	21,879	12,157	85,763	12,641
Non-interest income	155,880	126,689	94,595	76,981	(7,059)	(1,956)	131,749	15,073	21,879	12,157	397,044	228,944
Operating expenses	(36,687)	(31,005)	(153,228)	(139,073)	(832)	(857)	(195,035)	(55,523)	(303,013)	(232,448)	(688,795)	(458,906)
Non-interest expense	(36,687)	(31,005)	(153,228)	(139,073)	(832)	(857)	(195,035)	(55,523)	(303,013)	(232,448)	(688,795)	(458,906)
Profit/(loss) before income tax expense	96,512	135,993	484,992	371,620	81,275	119,304	(66,529)	(40,676)	(284,444)	(222,333)	311,806	363,908
Income tax (expense)/benefit	(10,265)	(17,673)	(53,591)	(48,677)	(8,924)	(15,503)	156	48	-	-	(72,624)	(81,805)
Net profit/(loss) for the year	86,247	118,320	431,401	322,943	72,351	103,801	(66,373)	(40,628)	(284,444)	(222,333)	239,182	282,103
Segment assets	1,089,918	1,253,255	4,080,518	3,190,304	5,949,105	4,151,664	266,369	79,263	262,166	135,768	11,648,076	8,810,254
Segment liabilities	6,873,291	4,888,108	2,804,676	2,146,837	435,225	549,078	286,288	59,234	98,338	85,373	10,497,818	7,728,630

The amount of revenues from entities that are under common control with the Group is disclosed in Note 31 "Related party disclosures".

The geographic information comprises:

	Azerbaijan Republic		OECD countries		Non-OECD countries		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
Revenue	1,525,774	1,113,988	23,563	15,780	355	1,260	1,549,692	1,131,028
Non-current assets	310,567	164,553	-	-	-	-	310,567	164,553

Revenue includes operating income excluding interest expense, fee and commission expense, and provision for impairment loss.

Non-current assets for this purpose consists of property, equipment, right-of-use assets, goodwill and other intangible assets.

(Amounts presented are in thousands of Azerbaijani manats)

7. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>2024</u>	<u>2023</u>
Cash on hand	1,107,195	917,598
Current accounts with the CBAR	125,949	104,364
Current accounts with other credit institutions	174,420	162,054
Time deposits with the credit institutions up to 90 days	532	130,554
Reverse repurchase agreements up to 90 days	160,114	15,638
Cash in transit	2,120	183
Cash and cash equivalents	<u>1,570,330</u>	<u>1,330,391</u>

As at 31 December 2024, current accounts with other credit institutions consist of non-interest-bearing correspondent accounts balances with resident and non-resident banks in the amount of AZN 48,423 (2023: AZN 39,373) and AZN 128,400 (2023: AZN 122,681), respectively.

Cash equivalents in amount of AZN 442,550 (2023: AZN 404,479) are allocated to Stage 1 and cash equivalents in amount of AZN 20,868 (2023: AZN 8,131) are allocated to Stage 2. The ECL relating to cash equivalents of the Group rounds to zero in both years.

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<u>2024</u>	<u>2023</u>
Obligatory reserve with the CBAR	1,479,033	1,213,070
Block accounts with other credit institutions	27,848	24,872
Loans to credit institutions	24,681	29,195
Time deposits with credit institutions	14,441	9,902
Other amounts from credit institutions	6,751	19,240
Amounts due from credit institutions	<u>1,552,754</u>	<u>1,296,279</u>

As at 31 December 2024, blocked accounts with credit institutions in amount of AZN 12,360 (2023: 7,440) mainly represented funds blocked by three (2023: three) non-resident credit institutions against letters of guarantee issued to eight (2023: seven) customers. In addition, funds are blocked by two (2023: two) non-resident credit institutions in amount of AZN 15,488 (2023: AZN 17,432) on behalf of Master Card Incorporated and Visa incorporated.

As at 31 December 2024, loans to credit institutions include AZN 24,681 (2023: AZN 29,195) issued to four non-resident banks, one resident bank and six resident non-bank credit institutions (2023: three non-resident banks and seven resident non-bank credit institutions).

As at 31 December 2024, time deposits with credit institutions consist of interest bearing short-term deposits placed in one resident bank and one non-resident bank (2023: two resident banks) in the amount of AZN 14,441 (2023: AZN 9,902).

As at 31 December 2024, credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR as per new updates. New differentiation criteria were introduced on the basis of which mandatory reserve rates are determined. The differentiation criteria are as follows:

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

Since the Bank's average deposits from legal entities in local currency exceeds AZN 1,000,000 and the proportion of connected deposits exceeds 20%, while only the segment of Bank-related deposits falls under 20% of total deposits, the applicable mandatory reserve rate was 20% for deposits in local currency as of 31 December 2024.

For foreign currency deposits mandatory reserve rate was 20% since the Bank's average deposits from legal entities in foreign currency exceeds AZN 750,000 and Bank-related deposits falls under 20% of total deposits. (31 December 2023: 12%)

(Amounts presented are in thousands of Azerbaijani manats)

8. Amounts due from credit institutions (continued)

The Bank's ability to withdraw Obligatory reserve with the CBAR is restricted by statutory legislation.

As of 31 December 2024, an amount of AZN 1,908 allocated to Stage 2 and AZN 1,550,846 allocated to Stage 1 (2023: all amounts are allocated to Stage 1). The ECL relating to Amounts due from credit institutions of the Group rounds to zero in both years.

9. Investment securities

Investment securities comprise:

	<u>2024</u>	<u>2023</u>
Debt securities at amortized cost		
Notes issued by the Ministry of Finance of the Republic of Azerbaijan	1,602,678	405,791
Notes issued by the Ministry of Finance of the Republic of Azerbaijan pledged under repurchase agreements	–	402,859
Corporate bonds	356,844	379,368
Bills issued by the CBAR	52,894	96,186
US Treasury bills	726,309	–
Reverse repurchase agreements for more than 90 days	–	–
Less - allowance for impairment	(3,720)	(6,500)
	<u>2,735,005</u>	<u>1,277,704</u>
Debt securities at FVOCI		
Bonds issued by the Azerbaijan Mortgage and Credit Guarantee Fund	141,149	177,000
Bills issued by the CBAR	–	127,938
US Treasury notes	84,942	–
	<u>226,091</u>	<u>304,938</u>
Equity securities at FVOCI		
Corporate shares	15,305	13,055
	<u>15,305</u>	<u>13,055</u>
Investment securities	<u><u>2,976,401</u></u>	<u><u>1,595,697</u></u>

In 2024, the Group made gain in amount of AZN 1,738 (2023: The Group made loss in amount of AZN 267) due to the proceeds of investment securities at amortized cost.

An analysis of changes in the gross carrying amounts and associated ECLs in relation to debt securities at amortized cost during the year ended 31 December 2024 is as follows:

Debt securities at amortised cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2024	1,281,513	–	2,691	1,284,204
New assets originated or purchased	1,989,804	–	–	1,989,804
Assets repaid	(532,904)	–	(2,379)	(535,283)
As at 31 December 2024	<u>2,738,413</u>	<u>–</u>	<u>312</u>	<u>2,738,725</u>
Debt securities at amortised cost	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2024	(3,809)	–	(2,691)	(6,500)
New assets originated or purchased	(1,728)	–	–	(1,728)
Assets repaid	456	–	2,379	2,835
Changes to inputs used for ECL calculations	1,673	–	–	1,673
As at 31 December 2024	<u>(3,408)</u>	<u>–</u>	<u>(312)</u>	<u>(3,720)</u>

(Amounts presented are in thousands of Azerbaijani manats)

9. Investment securities (continued)

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI during the year ended 31 December 2024 is as follows:

Debt securities at FVOCI	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2024	304,938	–	–	304,938
New assets originated or purchased	226,091	–	–	226,091
Assets repaid or sold	(304,938)	–	–	(304,938)
As at 31 December 2024	226,091	–	–	226,091

Debt securities at FVOCI	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2024	(286)	–	–	(286)
New assets originated or purchased	(225)	–	–	(225)
Assets repaid or sold	286	–	–	286
As at 31 December 2024	(225)	–	–	(225)

An analysis of changes in the gross carrying amounts and associated ECLs in relation to debt securities at amortized cost during the year ended 31 December 2023 is as follows:

Debt securities at amortised cost	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2023	2,215,968	–	2,691	2,218,659
New assets originated or purchased	226,970	–	–	226,970
Assets repaid	(1,161,425)	–	–	(1,161,425)
As at 31 December 2023	1,281,513	–	2,691	1,284,204

Debt securities at amortised cost	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2023	(3,645)	–	(2,691)	(6,336)
New assets originated or purchased	(228)	–	–	(228)
Assets repaid	1,191	–	–	1,191
Changes to inputs used for ECL calculations	(1,127)	–	–	(1,127)
As at 31 December 2023	(3,809)	–	(2,691)	(6,500)

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI during the year ended 31 December 2023 is as follows:

Debt securities at FVOCI	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2023	298,992	–	–	298,992
New assets originated or purchased	252,856	–	–	252,856
Assets repaid or sold	(246,910)	–	–	(246,910)
As at 31 December 2023	304,938	–	–	304,938

Debt securities at FVOCI	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2023	(276)	–	–	(276)
New assets originated or purchased	(202)	–	–	(202)
Assets repaid or sold	192	–	–	192
As at 31 December 2023	(286)	–	–	(286)

(Amounts presented are in thousands of Azerbaijani manats)

10. Loans to customers

Loans to customers comprise:

	2024	2023
Government related entities	412,984	378,153
Corporate loans	678,863	605,542
Loans to individuals – consumer loans	2,222,702	1,957,831
Loans to individuals – mortgage loans	609,307	571,201
Individual entrepreneurs	570,097	370,721
Gross loans to customers at amortised cost	4,493,953	3,883,448
Less: allowance for loan impairment	(171,844)	(137,507)
Loans to customers at amortised cost	4,322,109	3,745,941
Loans to individuals – consumer loans	670,721	364,560
Loans to customers at FVTPL	670,721	364,560
Loans to customers	4,992,830	4,110,501

Loans are extended to the following types of customers:

	2024	2023
Individuals	3,502,730	2,893,592
Private entities	678,863	605,542
Government related entities	412,984	378,153
Individual entrepreneurs	570,097	370,721
Loans to customers, gross	5,164,674	4,248,008

Loans are made principally in the following industry sectors:

	2024	2023
Individuals	3,502,730	2,893,592
Trade and services	1,065,823	781,754
Construction	163,796	134,315
Agriculture and food processing	148,228	90,259
Manufacturing	125,406	205,566
Transport	85,412	17,586
Telecommunication	55,981	55,619
Other	17,298	69,317
Loans to customers, gross	5,164,674	4,248,008

As at 31 December 2024, the Group had a concentration of loans represented by AZN 597,875 or 12% of gross loan portfolio (2023: AZN 573,389 or 13%) due from twelve (2023: twelve) largest borrowers of the Group. An allowance of AZN 2,092 (2023: AZN 1,440) was recognized against these loans.

(Amounts presented are in thousands of Azerbaijani manats)

10. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost

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

Government related entities	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2024	378,094	–	59	378,153
New assets originated or purchased	192,096	–	–	192,096
Assets derecognized or repaid (excluding write-offs)	(157,265)	–	–	(157,265)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(21,549)	21,549	–	–
Transfers to Stage 3	(70)	–	70	–
As a 31 December 2024	391,306	21,549	129	412,984
Government related entities	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2024	(383)	–	(59)	(442)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(1,028)	–	–	(1,028)
Assets derecognized or repaid (excluding write-offs)	117	–	–	117
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	588	(588)	–	–
Transfers to Stage 3	30	–	(30)	–
Impact on period end ECL of exposures transferred between stages during the period	–	(28)	16	(12)
Changes to inputs used for ECL calculations	(145)	–	14	(131)
As at 31 December 2024	(821)	(616)	(59)	(1,496)

(Amounts presented are in thousands of Azerbaijani manats)

10. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

Corporate loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2024	559,780	37,437	8,325	605,542
New assets originated or purchased	448,458	–	–	448,458
Assets derecognized or repaid (excluding write-offs)	(342,993)	(29,254)	(4,941)	(377,188)
Transfers to Stage 1	1,596	(1,596)	–	–
Transfers to Stage 2	(79,316)	79,316	–	–
Transfers to Stage 3	(5,961)	(4,382)	10,343	–
Recoveries	–	–	2,219	2,219
Amounts written off	–	–	(168)	(168)
As at 31 December 2024	581,564	81,521	15,778	678,863
Corporate loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2024	(10,206)	(1,337)	(5,569)	(17,112)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(11,377)	–	–	(11,377)
Assets derecognized or repaid (excluding write-offs)	6,045	1,089	4,071	11,205
Transfers to Stage 1	(149)	149	–	–
Transfers to Stage 2	2,132	(2,132)	–	–
Transfers to Stage 3	3,294	333	(3,627)	–
Impact on period end ECL of exposures transferred between stages during the period	110	(991)	(3,179)	(4,060)
Changes to inputs used for ECL calculations	774	(42)	(215)	517
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognised in interest income)	–	–	(399)	(399)
Recoveries	–	–	(2,219)	(2,219)
Amounts written off	–	–	168	168
As at 31 December 2024	(9,377)	(2,931)	(10,969)	(23,277)

(Amounts presented are in thousands of Azerbaijani manats)

10. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

Loans to individuals – consumer loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2024	1,803,056	90,636	64,139	1,957,831
New assets originated or purchased	1,543,875	–	–	1,543,875
Assets derecognized or repaid (excluding write-offs)	(1,177,560)	(55,346)	(13,033)	(1,245,939)
Transfers to Stage 1	11,165	(11,045)	(120)	–
Transfers to Stage 2	(114,658)	122,164	(7,506)	–
Transfers to Stage 3	(66,221)	(4,957)	71,178	–
Unwinding of discount	278	1,096	1,665	3,039
Changes to contractual cash flows due to modifications not resulting in derecognition	(301)	(2,542)	(3,340)	(6,183)
Recoveries	–	–	15,017	15,017
Amounts written off	–	–	(44,938)	(44,938)
As at 31 December 2024	1,999,634	140,006	83,062	2,222,702
Loans to individuals – consumer loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2024	(29,537)	(23,653)	(48,639)	(101,829)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(23,042)	–	–	(23,042)
Assets derecognized or repaid (excluding write-offs)	18,648	14,266	9,243	42,157
Transfers to Stage 1	(3,373)	3,287	86	–
Transfers to Stage 2	1,878	(6,663)	4,785	–
Transfers to Stage 3	1,085	1,823	(2,908)	–
Impact on period end ECL of exposures transferred between stages during the period	3,545	(29,434)	(41,411)	(67,300)
Changes to inputs used for ECL calculations	1,705	1,459	(190)	2,974
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognised in interest income)	–	–	(3,125)	(3,125)
Recoveries	–	–	(15,017)	(15,017)
Amounts written off	–	–	44,938	44,938
As at 31 December 2024	(29,091)	(38,915)	(52,238)	(120,244)

(Amounts presented are in thousands of Azerbaijani manats)

10. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

<i>Loans to individuals – mortgage loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2024	543,797	26,516	888	571,201
New assets originated or purchased	104,014	–	–	104,014
Assets derecognized or repaid (excluding write-offs)	(61,630)	(4,204)	(70)	(65,904)
Transfers to Stage 1	1,393	(1,194)	(199)	–
Transfers to Stage 2	(5,065)	5,065	–	–
Transfers to Stage 3	(1,161)	–	1,161	–
Amounts written off	–	–	(4)	(4)
As at 31 December 2024	581,348	26,183	1,776	609,307
<i>Loans to individuals – mortgage loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January 2024	(735)	(285)	(191)	(1,211)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(51)	–	–	(51)
Assets derecognized or repaid (excluding write-offs)	121	36	22	179
Transfers to Stage 1	(80)	38	42	–
Transfers to Stage 2	26	(26)	–	–
Transfers to Stage 3	28	–	(28)	–
Impact on period end ECL of exposures transferred between stages during the period	80	(126)	(319)	(365)
Changes to inputs used for ECL calculations	–	(2)	2	–
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognised in interest income)	–	–	(15)	(15)
Amounts written off	–	–	4	4
As at 31 December 2024	(611)	(365)	(483)	(1,459)

(Amounts presented are in thousands of Azerbaijani manats)

10. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

<i>Individual entrepreneurs</i>	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2024	356,057	9,009	5,655	370,721
New assets originated or purchased	445,572	–	–	445,572
Assets derecognized or repaid (excluding write-offs)	(239,554)	(5,444)	(650)	(245,648)
Transfers to Stage 1	2,619	(2,598)	(21)	–
Transfers to Stage 2	(15,273)	15,273	–	–
Transfers to Stage 3	(8,426)	(243)	8,669	–
Recoveries	–	–	82	82
Amounts written off	–	–	(630)	(630)
As at 31 December 2024	540,995	15,997	13,105	570,097
<i>Individual entrepreneurs</i>	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2024	(12,147)	(1,233)	(3,533)	(16,913)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(16,142)	–	–	(16,142)
Assets derecognized or repaid (excluding write-offs)	8,296	638	477	9,411
Transfers to Stage 1	(446)	434	12	–
Transfers to Stage 2	1,780	(1,780)	–	–
Transfers to Stage 3	3,481	17	(3,498)	–
Impact on period end ECL of exposures transferred between stages during the period	411	(1,532)	(1,717)	(2,838)
Changes to inputs used for ECL calculations	798	(53)	(19)	726
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognised in interest income)	–	–	(160)	(160)
Recoveries	–	–	(82)	(82)
Amounts written off	–	–	630	630
As at 31 December 2024	(13,969)	(3,509)	(7,890)	(25,368)

(Amounts presented are in thousands of Azerbaijani manats)

10. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

Government related entities	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2023	260,846	36	59	260,941
New assets originated or purchased	233,979	–	–	233,979
Assets derecognized or repaid (excluding write-offs)	(116,731)	(36)	–	(116,767)
As a 31 December 2023	378,094	–	59	378,153
Government related entities	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	(2,287)	(2)	(49)	(2,338)
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(321)	–	–	(321)
Assets derecognized or repaid (excluding write-offs)	2,226	2	–	2,228
Changes to inputs used for ECL calculations	(1)	–	(5)	(6)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognised in interest income)	–	–	(5)	(5)
As at 31 December 2023	(383)	–	(59)	(442)

(Amounts presented are in thousands of Azerbaijani manats)

10. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

<i>Corporate loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2023	391,471	85,507	7,279	484,257
New assets originated or purchased	458,940	–	–	458,940
Assets derecognized or repaid (excluding write-offs)	(262,772)	(70,373)	(5,406)	(338,551)
Transfers to Stage 1	7,289	(7,258)	(31)	–
Transfers to Stage 2	(30,986)	31,057	(71)	–
Transfers to Stage 3	(4,162)	(1,496)	5,658	–
Recoveries	–	–	1,029	1,029
Amounts written off	–	–	(133)	(133)
As at 31 December 2023	559,780	37,437	8,325	605,542
<i>Corporate loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January 2023	(7,848)	(4,053)	(5,218)	(17,119)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(8,616)	–	–	(8,616)
Assets derecognized or repaid (excluding write-offs)	4,881	3,017	4,550	12,448
Transfers to Stage 1	(791)	772	19	–
Transfers to Stage 2	1,369	(1,407)	38	–
Transfers to Stage 3	256	456	(712)	–
Impact on period end ECL of exposures transferred between stages during the period	662	(193)	(2,825)	(2,356)
Changes to inputs used for ECL calculations	(119)	71	(234)	(282)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognised in interest income)	–	–	(291)	(291)
Recoveries	–	–	(1,029)	(1,029)
Amounts written off	–	–	133	133
As at 31 December 2023	(10,206)	(1,337)	(5,569)	(17,112)

(Amounts presented are in thousands of Azerbaijani manats)

10. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

Loans to individuals – consumer loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2023	1,502,612	127,638	46,310	1,676,560
New assets originated or purchased	1,390,560	–	–	1,390,560
Assets derecognized or repaid (excluding write-offs)	(998,921)	(78,482)	(28,576)	(1,105,979)
Transfers to Stage 1	29,850	(28,908)	(942)	–
Transfers to Stage 2	(69,587)	75,988	(6,401)	–
Transfers to Stage 3	(51,564)	(4,949)	56,513	–
Unwinding of discount	276	551	885	1,712
Changes to contractual cash flows due to modifications not resulting in derecognition	(170)	(1,202)	(1,937)	(3,309)
Recoveries	–	–	15,175	15,175
Amounts written off	–	–	(16,888)	(16,888)
As at 31 December 2023	1,803,056	90,636	64,139	1,957,831
Loans to individuals – consumer loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	(26,635)	(27,464)	(32,359)	(86,458)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(24,342)	–	–	(24,342)
Assets derecognized or repaid (excluding write-offs)	17,358	16,121	23,996	57,475
Transfers to Stage 1	(5,808)	5,192	616	–
Transfers to Stage 2	1,233	(5,283)	4,050	–
Transfers to Stage 3	914	1,304	(2,218)	–
Impact on period end ECL of exposures transferred between stages during the period	6,359	(14,980)	(39,644)	(48,265)
Changes to inputs used for ECL calculations	1,384	1,457	(1,692)	1,149
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognised in interest income)	–	–	(3,101)	(3,101)
Recoveries	–	–	(15,175)	(15,175)
Amounts written off	–	–	16,888	16,888
As at 31 December 2023	(29,537)	(23,653)	(48,639)	(101,829)

(Amounts presented are in thousands of Azerbaijani manats)

10. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

<i>Loans to individuals – mortgage loans</i>	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2023	397,991	19,139	1,195	418,325
New assets originated or purchased	200,009	–	–	200,009
Assets derecognized or repaid (excluding write-offs)	(44,434)	(2,609)	(90)	(47,133)
Transfers to Stage 1	2,096	(1,668)	(428)	–
Transfers to Stage 2	(11,661)	11,672	(11)	–
Transfers to Stage 3	(204)	(18)	222	–
As at 31 December 2023	543,797	26,516	888	571,201
<i>Loans to individuals – mortgage loans</i>	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	(461)	(469)	(245)	(1,175)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(203)	–	–	(203)
Assets derecognized or repaid (excluding write-offs)	62	48	38	148
Transfers to Stage 1	(176)	90	86	–
Transfers to Stage 2	35	(37)	2	–
Transfers to Stage 3	7	–	(7)	–
Impact on period end ECL of exposures transferred between stages during the period	181	(278)	(50)	(147)
Changes to inputs used for ECL calculations	(180)	361	3	184
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognised in interest income)	–	–	(18)	(18)
As at 31 December 2023	(735)	(285)	(191)	(1,211)

(Amounts presented are in thousands of Azerbaijani manats)

10. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

<i>Individual entrepreneurs</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2023	150,485	12,421	5,363	168,269
New assets originated or purchased	314,445	–	–	314,445
Assets derecognized or repaid (excluding write-offs)	(100,553)	(9,417)	(1,724)	(111,694)
Transfers to Stage 1	1,822	(1,822)	–	–
Transfers to Stage 2	(7,833)	7,833	–	–
Transfers to Stage 3	(2,309)	(6)	2,315	–
Recoveries	–	–	36	36
Amounts written off	–	–	(335)	(335)
As at 31 December 2023	356,057	9,009	5,655	370,721
<i>Individual entrepreneurs</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January 2023	(6,239)	(1,841)	(3,303)	(11,383)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(11,937)	–	–	(11,937)
Assets derecognized or repaid (excluding write-offs)	4,393	1,204	1,399	6,996
Transfers to Stage 1	(281)	281	–	–
Transfers to Stage 2	535	(535)	–	–
Transfers to Stage 3	199	1	(200)	–
Impact on period end ECL of exposures transferred between stages during the period	231	(405)	(1,273)	(1,447)
Changes to inputs used for ECL calculations	952	62	(252)	762
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognised in interest income)	–	–	(203)	(203)
Recoveries	–	–	(36)	(36)
Amounts written off	–	–	335	335
As at 31 December 2023	(12,147)	(1,233)	(3,533)	(16,913)

(Amounts presented are in thousands of Azerbaijani manats)

10. Loans to customers (continued)

Modified and restructured loans

The Group derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes unless the new loan is deemed to be POCI. During 2023, the Group did not have any Stage 3 originated loan, however has one POCI instrument with the balance rounds to zero. In 2024, the Group recognized additional POCI instruments related to migrated loans from another financial institution. Due to the nature of these loans, they were classified as POCI upon recognition.

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

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification loss suffered by the Group.

	<u>2024</u>	<u>2023</u>
Loans modified during the period		
Amortised cost before modification	76,081	49,881
Net modification loss	(6,183)	(3,309)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- ▶ For corporate lending, charges over real estate properties and vehicles, third party guarantees;
- ▶ 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 loan impairment.

The Group calculates LGD rate of several corporate and small lending loans in Stage 3 using discounted value of collaterals. As at 31 December 2024, maximum exposure of such loans amounted to AZN 2,296 (2023: AZN 1,612) for which ECL of AZN 1,188 (2023: AZN 522) was recognized. If these loans were not collateralized, ECL amount for these loans would be AZN 2,296 (2023: AZN 1,612) based on collective assessment.

(Amounts presented are in thousands of Azerbaijani manats)

11. Property and equipment

The movements in property and equipment were as follows:

	<i>Premises</i>	<i>Leasehold improvements</i>	<i>Computers and other office equipment</i>	<i>Furniture, fixtures, vehicles and others</i>	<i>Total</i>
Cost or revaluation					
1 January 2023	6,867	23,761	24,372	127,580	182,580
Additions	-	7,760	7,871	19,090	34,721
Disposals	-	-	(913)	(4,226)	(5,139)
Effect of revaluation	102	-	-	-	102
31 December 2023	6,969	31,521	31,330	142,444	212,264
Additions through business combination	-	208	1,091	1,002	2,301
Additions	2	44,839	6,271	29,264	80,376
Disposals	(373)	(274)	(1,156)	(7,378)	(9,181)
Effect of revaluation	96	7	43	57	203
31 December 2024	6,694	76,301	37,579	165,389	285,963
Accumulated depreciation and impairment					
1 January 2023	(58)	(6,823)	(14,515)	(81,146)	(102,542)
Depreciation charge	(383)	(2,895)	(3,992)	(15,902)	(23,172)
Disposals	-	-	802	4,147	4,949
Effect of revaluation	314	-	-	-	314
31 December 2023	(127)	(9,718)	(17,705)	(92,901)	(120,451)
Additions through business combination	-	(19)	(418)	(313)	(750)
Depreciation charge	(369)	(6,682)	(4,263)	(19,150)	(30,464)
Disposals	71	248	798	7,270	8,387
Effect of revaluation	319	(2)	(17)	(25)	275
31 December 2024	(106)	(16,173)	(21,605)	(105,119)	(143,003)
Net book value					
31 December 2022	6,809	16,938	9,857	46,434	80,038
31 December 2023	6,842	21,803	13,625	49,543	91,813
31 December 2024	6,588	60,128	15,974	60,270	142,960

As at 31 December 2024, property and equipment amounting to AZN 70,356 (2023: AZN 64,902) were fully depreciated but in use.

As at 31 December 2024, property and equipment contained items in warehouse amounting to AZN 2,376 (2023: AZN 6,753).

The Group engaged an independent appraiser, "Vecon Consulting" LLC (2023: "Vecon Consulting" LLC), to determine the revalued amount of its premises as at 31 December 2024 and 2023. Revalued amount is determined by reference to market and income-based evidences. The valuation method used was sales-comparison and income analysis. The revaluation gain amounting to AZN 415 (2023: gain AZN 416) has been recognized within other comprehensive income.

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

	2024	2023
Cost	8,031	8,031
Accumulated depreciation	(6,192)	(5,790)
Net carrying amount	1,839	2,241

(Amounts presented are in thousands of Azerbaijani manats)

12. Intangible assets

The movements in intangible assets were as follows:

	<i>Goodwill</i>	<i>License</i>	<i>Computer software</i>	<i>Total</i>
Cost				
1 January 2023	8,535	21,803	26,595	56,933
Additions	-	10,328	6,029	16,357
Disposals	-	(5,616)	(118)	(5,734)
31 December 2023	8,535	26,515	32,506	67,556
Additions through business combination	22,526	147	6,439	29,112
Additions	-	21,373	6,717	28,090
Disposals	-	(6,886)	(515)	(7,401)
31 December 2024	31,061	41,149	45,147	117,357
Accumulated amortization				
1 January 2023	-	(10,270)	(10,965)	(21,235)
Amortisation charge	-	(8,822)	(3,098)	(11,920)
Disposals	-	5,616	118	5,734
31 December 2023	-	(13,476)	(13,945)	(27,421)
Additions through business combination	-	(46)	(4,926)	(4,972)
Amortisation charge	-	(16,014)	(4,301)	(20,315)
Disposals	-	6,923	254	7,177
31 December 2024	-	(22,613)	(22,918)	(45,531)
Net book value	-			
31 December 2022	8,535	11,533	15,630	35,698
31 December 2023	8,535	13,039	18,561	40,135
31 December 2024	31,061	18,536	22,229	71,826

During 2024 and 2023, the Group performed its annual impairment test for goodwill arising on acquisition. The Group considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment. The Group used future cash flows and WACC as an interest rate while assessing the recoverable amount. Recoverable amount (value in use) of business is calculated by identifying present value of future cash flows using WACC, and as a result, the Group concluded that there is no impairment arising related the goodwill.

13. Right of use assets and lease liability

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

	2024	2023
As at 1 January	32,605	38,372
Acquisition through business combinations	2,329	-
Additions	75,716	1,696
Lease modification	2,668	2,809
Foreign currency translation difference	253	-
Depreciation expense	(17,790)	(10,272)
As at 31 December	95,781	32,605

(Amounts presented are in thousands of Azerbaijani manats)

13. Right of use assets and lease liability (continued)

The movements in lease liability were as follows:

	<u>2024</u>	<u>2023</u>
As at 1 January	39,597	44,431
Acquisition through business combinations	2,370	–
Additions	43,405	1,696
Lease modifications	2,367	2,508
Interest expense	8,247	4,855
Foreign currency translation difference	26	–
Payments	(19,349)	(13,893)
As at 31 December	76,663	39,597

14. Taxation

The corporate income tax expense comprises:

	<u>2024</u>	<u>2023</u>
Current tax charge	(67,602)	(101,002)
Deferred (charge) / benefit – origination of temporary differences	(5,142)	18,696
Less: deferred tax recognised in other comprehensive income	120	501
Income tax expense	(72,624)	(81,805)

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

	<u>2024</u>	<u>2023</u>
Net (gain) / loss on debt instruments designated at fair value through OCI	84	(29)
Net (gain) / loss on equity instruments designated at fair value through OCI	(121)	(389)
Revaluation of premises	(83)	(83)
Income tax charged to other comprehensive income	(120)	(501)

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

	<u>2024</u>	<u>2023</u>
Profit before income tax expense	311,806	363,908
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	(62,361)	(72,782)
Tax effect of items which are not deductible or assessable for taxation purposes		
Non-deductible expenses	(4,323)	(6,736)
Derecognised deferred taxes	(6,600)	(1,997)
Other	660	(290)
Income tax expense	(72,624)	(81,805)

(Amounts presented are in thousands of Azerbaijani manats)

14. Taxation (continued)

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

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>			
	2022	<i>In the statement of profit or loss</i>		2023	<i>In the statement of profit or loss</i>		2024
		<i>In other compre- hensive income</i>			<i>In other compre- hensive income</i>		
Tax effect of deductible temporary differences							
Unused tax losses	1,066	(307)	-	759	-	-	759
Investment in associate	855	3,519	-	4,374	527	-	4,901
Investment securities	252	225	(418)	59	161	(36)	184
Amounts due from credit institutions	258	(449)	-	(191)	240	-	49
Amounts due to credit institutions	1,457	64	-	1,521	-	-	1,521
Provision for credit related commitments and other impairment	(338)	754	-	416	1,154	-	1,570
Lease liability	9,566	(1,647)	-	7,919	7,034	-	14,953
Other assets	(4,448)	3,551	-	(897)	12,783	-	11,886
Other liabilities	10,817	5,542	-	16,359	2,345	-	18,704
Deferred tax assets	19,485	11,252	(418)	30,319	24,244	(36)	54,527
Intangible assets	(241)	(265)	-	(506)	(819)	-	(1,325)
Amounts due to customers	676	(676)	-	-	(510)	-	(510)
Right of use assets	(8,279)	1,758	-	(6,521)	(12,221)	-	(18,742)
Loans to customers	(43,215)	6,568	-	(36,647)	(9,252)	-	(45,899)
Property and equipment	(2,904)	560	(83)	(2,427)	(6,464)	(84)	(8,975)
Deferred tax liabilities	(53,963)	7,945	(83)	(46,101)	(29,266)	(84)	(75,451)
Net deferred income tax (liabilities)/asset	(34,478)	19,197	(501)	(15,782)	(5,022)	(120)	(20,924)

(Amounts presented are in thousands of Azerbaijani manats)

15. Credit loss expense and other impairment and provisions

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

	Note	Stage 1	Stage 2	Stage 3	Total
Investment securities	9	462	–	2,379	2,841
Loans to customers at amortised cost	10	(861)	(19,828)	(38,371)	(59,060)
Other financial assets	16	(671)	(62)	(994)	(1,727)
Credit loss on financial assets		(1,070)	(19,890)	(36,986)	(57,946)
Financial guarantees	22	(892)	(1,400)	(14)	(2,306)
Undrawn Loan Commitment	22	(665)	(1,483)	(11)	(2,159)
Letters of credit	22	(20)	–	–	(20)
Credit related commitments		(1,577)	(2,883)	(25)	(4,485)
Total credit loss expense		(2,647)	(22,773)	(37,011)	(62,431)

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

	Note	Stage 1	Stage 2	Stage 3	Total
Investment securities	9	(174)	–	–	(174)
Loans to customers at amortised cost	10	(9,538)	7,321	(14,315)	(16,532)
Other financial assets	16	(83)	(32)	(471)	(586)
Credit loss on financial assets		(9,795)	7,289	(14,786)	(17,292)
Financial guarantees	22	(160)	87	47	(26)
Letters of credit	22	(1,740)	(77)	1,294	(523)
Undrawn loan commitments	22	20	1	–	21
Credit related commitments		(1,880)	11	1,341	(528)
Total credit loss expense		(11,675)	7,300	(13,445)	(17,820)

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

	Performance guarantees
1 January 2023	(2,079)
Charge	(91)
31 December 2023	(2,170)
Charge	(123)
31 December 2024	(2,293)

(Amounts presented are in thousands of Azerbaijani manats)

16. Other assets and liabilities

Other assets comprise:

	2024	2023
Other financial assets		
Funds in settlement	159,327	96,309
Receivable from local budget	18,504	12,495
Accrued commission	4,039	3,596
Receivables from Azerbaijan Deposit Insurance Fund	377	111,594
Derivative financial assets	83	5,346
Less: allowance for impairment of other assets	(6,541)	(4,861)
Total other financial assets	175,789	224,479
Other non-financial assets		
Prepayments	18,581	12,162
Prepaid rent and other deferred expenses	17,204	51,030
Repossessed collateral	10,227	10,048
Inventory	6,469	-
VAT receivable/recoverable	4,017	1,583
Spare parts	2,912	2,216
Total other non-financial assets	59,410	77,039
Other assets	235,199	301,518

The Group's receivable from Azerbaijan Deposit Insurance Fund (hereinafter "ADIF") are associated with the discontinuation of resident bank in 2023. Following resident banks' cessation, the Group was obliged to reimburse deposits and current accounts in amount of AZN 111,594 to customers of the respective bank and was anticipating compensation from ADIF as of 31 December 2023. As of 31 December 2024, the receivable amount related to this matter decreased to AZN 377, reflecting the ongoing process of compensation from ADIF.

During 2022, the Group has entered into a 10-year lease agreement with a related party for a new head office premise with the commencement date at the January 2024. To secure this lease, the Group was required to make an upfront payment. Starting from January 2024 the Group began making rent payments as floors rented were ready to use. Since this lease agreement falls within the scope of IFRS 16, the Group has written off prepayment amount and recognized a right-of-use asset in amount of AZN 53,919 (31 December 2023: prepayment in amount of AZN 38,213).

An analysis of changes in the ECLs for other financial assets for 31 December 2024 is, as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL at 1 January 2024	(152)	(97)	(4,612)	(4,861)
Reversal / (charges)	(671)	(62)	(994)	(1,727)
Amounts written-off			47	47
As at 31 December 2024	(823)	(159)	(5,559)	(6,541)

An analysis of changes in the ECLs for other financial assets for 31 December 2023 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL at 1 January 2023	(69)	(65)	(4,358)	(4,492)
Charges	(83)	(32)	(471)	(586)
Amounts written-off	-	-	217	217
As at 31 December 2023	(152)	(97)	(4,612)	(4,861)

(Amounts presented are in thousands of Azerbaijani manats)

16. Other assets and liabilities (continued)

Other liabilities comprise:

	<u>2024</u>	<u>2023</u>
Other financial liabilities		
Funds in settlement	149,258	78,318
Accrued expenses	18,944	11,149
Provision for financial guarantees and other credit related commitments	15,579	11,094
Borrowings	850	–
Total other financial liabilities	<u>184,631</u>	<u>100,561</u>
Other non-financial liabilities		
Payables to employees	57,166	59,016
Deferred revenue	38,986	8,616
Payables to local budget	17,940	15,867
Contract liabilities	15,012	14,681
Taxes other than income tax	9,926	5,688
Provision for performance guarantees	2,293	2,170
Other	255	244
Total other non-financial liabilities	<u>141,578</u>	<u>106,282</u>
Other liabilities	<u>326,209</u>	<u>206,843</u>

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	<u>31 December 2024</u>			<u>31 December 2023</u>		
	<u>Notional amount</u>	<u>Fair values</u>		<u>Notional amount</u>	<u>Fair value</u>	
		<u>Asset</u>	<u>Liability</u>		<u>Asset</u>	<u>Liability</u>
Foreign exchange contracts						
Swaps – domestic	10,200	83	–	147,547	5,346	–
Total derivative assets		<u>83</u>			<u>5,346</u>	

17. Amounts due to customers

Amounts due to customers comprise:

	<u>2024</u>	<u>2023</u>
Legal entities		
Current accounts	4,987,056	3,420,184
Term deposits	1,320,138	867,819
Individuals		
Current accounts	1,418,847	1,393,818
Term deposits	1,251,111	662,668
Amounts due to customers	<u>8,977,152</u>	<u>6,344,489</u>
Held as security against guarantees and letters of credit (Note 22)	(43,125)	(26,694)

At 31 December 2024, the Group had amounts due to ten (2023: ten) largest customers with aggregate balance of AZN 3,349,756 or 37% of total amounts due to customers (2023: AZN 1,956,382 or 31%).

(Amounts presented are in thousands of Azerbaijani manats)

17. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

	2024		2023	
	Amount	%	Amount	%
Individuals	2,669,958	30%	2,056,486	32%
Energy	1,684,964	19%	647,072	10%
Trade and services	1,642,337	18%	1,391,800	22%
Construction	1,192,944	13%	1,119,723	18%
Insurance	805,185	9%	384,344	6%
Manufacturing	305,446	3%	158,849	3%
Education	262,397	3%	226,014	4%
Transportation & Communication	182,744	2%	141,566	2%
Agriculture	139,423	2%	121,341	2%
Other	91,754	1%	97,294	1%
Amounts due to customers	8,977,152	100%	6,344,489	100%

18. Debt securities issued

	2024	2023
USD bonds	265,516	59,578
AZN bonds	100,348	—
Debt securities issued	365,864	59,578

During 2024 the Group had issued USD bonds amounting to AZN 246,500 with 7% coupon rate and 7 years' maturity period and AZN bonds amounting to AZN 100,000 with 10% coupon rate and 1-year maturity period through public placement. The issuance was conducted through placement on Baku Stock Exchange. The Group is not obliged to comply with any financial or non-financial covenants in relation to these debt securities. During the 2024 the Group purchased back AZN 42,500 of bonds issued in 2022 year.

19. Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations

As at 31 December 2024, amounts due to the CBAR and government organizations comprise:

	2024	2023
Azerbaijan Mortgage and Credit Guarantee Fund	376,039	325,957
Entrepreneurship Development Fund of the Republic of Azerbaijan	80,283	29,272
Educational Student Credit Fund	56,417	79,385
Agency for Agro Credit and Development	1,346	1,750
Central Bank of the Republic of Azerbaijan	—	540
Amounts due to the CBAR and government organizations	514,085	436,904

In 2005, the Bank signed a credit agreement with National Fund for Support of Entrepreneurship, a program under the Ministry of Economic Development of the Republic of Azerbaijan, for financing of small and medium sized enterprises. Name of the fund was change to Entrepreneurship Development Fund of the Republic of Azerbaijan in 2018. Under this program, funds are made available to the Bank at an interest rate of 1% p.a. (2023: 1% p.a.) and mature during 2025-2031 (2023: 2024-2031). The Bank uses these funds to issue loans to eligible borrowers at rates not higher than 7% p.a.

In 2016, the Bank signed a credit agreement with the Azerbaijan Mortgage Fund OJSC for granting long-term mortgage loans to individuals. Name of the fund was change to Azerbaijan Mortgage and Credit Guarantee Fund OJSC in 2018. Under this program, funds are made available to the Bank at interest rates between 1% and 6% p.a. (2023: 1% and 4% p.a.) and mature in 2025-2054 (2023: 2024-2053). The Bank is obliged to make these funds to issue loans to eligible borrowers at rates not higher than 8.0% p.a.

(Amounts presented are in thousands of Azerbaijani manats)

19. Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations (continued)

In 2018, the Bank signed a credit agreement with the Agency for Agro Credit and Development, a program under the Ministry of Agriculture of the Republic of Azerbaijan, for financing enterprises in agriculture sector. Under this program, funds are made available to the Bank at interest rates 2% and 3% p.a. (2023: 2% and 3% p.a.) and mature in 2025-2029 (2023: 2024-2027). The Bank is obliged to make these funds to issue loans to eligible borrowers at rates not higher than 7% p.a. (2023: 7% p.a.).

In 2021, the Bank signed a credit agreement with Educational Student Credit Fund, a program under the Ministry of Education of the Republic of Azerbaijan, for financing students' education fees. Educational Student Credit Fund was created by the decree of the President of Azerbaijan Republic in 2021 and the charter of this fund is AZN 56,417 (2023: AZN 79,385) which has been transferred to the Bank as a current account of the Fund. Under this program, loans terms and interest rates will be defined by the Fund. The Bank will finance loans of eligible students and the Fund will subsequently transfer financed amount to the Bank. The Fund will bear all credit risks associated with those loans.

20. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>2024</u>	<u>2023</u>
Time deposits from financial institutions	29,427	18,384
Current accounts	20,806	18,623
Long-term loans received from credit institutions	6,704	40,366
Repurchase agreements	–	403,760
Other amounts owed to credit institutions	159,984	126,649
Amounts due to credit institutions	<u>216,921</u>	<u>607,782</u>

As at 31 December 2024, the amount of the fair value of notes issued by the Ministry of Finance of the Republic of Azerbaijan pledged under repurchase agreements is nil (2023: AZN 404,453). As at 31 December 2024, other amounts owed to credit institutions in amount of AZN 159,984 (2023: AZN 126,649) comprised of non-interest bearing amounts owed to 62 credit institutions (2023: 42 credit institutions) by "PashaPay" LLC mainly for cash payments made by customers through payment terminals for services of other banks (loan repayments, account deposits, transfers, etc.)

21. Equity

As at 31 December 2024 and 2023, the Group's share capital is represented by ordinary and preference shares. Ordinary shares were registered at State Securities Committee of the Republic of Azerbaijan on 17 July 2014, thus, authorized, issued and fully paid up capital comprised of 16,614,205 ordinary shares with nominal amount of 12.39 Azerbaijani manat per ordinary. Each ordinary share carries one vote while preference shares do not carry any voting rights.

As at 31 December 2024 and 2023, the balance of share capital is AZN 265,850.

According to the decision of the General Shareholders' Meeting held on 29 March, 3 July and 26 September 2024, the Group declared and paid dividends in respect of the year ended 31 December 2023 in the amount of AZN 9,000 on preference shares (1.86 Azerbaijani manat per share), AZN 61,000, AZN 55,000 and AZN 51,112 on ordinary shares, respectively (10.06 Azerbaijani manat per share). All amounts include 5% withholding tax to be paid on behalf of shareholders. Preference shares have a fixed dividend (15%), and do not have any voting rights.

According to the decision of the General Shareholders' Meeting held on 12 January 2023, 31 March 2023 and 06 July 2023, the Group declared and paid dividends in respect of the year ended 31 December 2022 in the amount of AZN 9,000 on preference shares (1.86 Azerbaijani manat per share), AZN 148,400 and AZN 13,700 on ordinary shares, respectively (9.76 Azerbaijani manat per share). Preference shares have a fixed dividend (15%), and do not have any voting rights.

All amounts include withholding tax to be paid on behalf of shareholders.

Additional paid-in capital

Additional paid-in capital represents accumulated contribution from shareholders other than payments for the value of issued shares.

(Amounts presented are in thousands of Azerbaijani manats)

21. Equity (continued)

Revaluation reserve for premises

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

Unrealised gains on investment securities

This reserve records fair value changes on investment securities designated at FVOCI.

22. Commitments and contingencies

Operating environment

General overview

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

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

Economic performance

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

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

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

Monetary policy

The Central Bank of Azerbaijan (CBAR) has continued to actively manage its monetary policy to ensure financial stability. In 2024, the CBAR reduced the refinancing rate to 7.25% from 8.25%, in response to the moderation in inflation rates. This adjustment aims to support economic growth while maintaining control over inflation, which decreased from 8.8% in 2023 to around 2.2% in 2024.

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

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

Credit Rating Assessment

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

(Amounts presented are in thousands of Azerbaijani manats)

22. Commitments and contingencies (continued)

Operating environment (continued)

Management response

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

Legal

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

Taxation

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. The last tax audit covered first half of 2017.

Management's interpretation of the relevant legislation as at 31 December 2024 is appropriate and the Group's tax, currency and customs positions will be sustained.

Insurance

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

Compliance with the CBAR ratios

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

- ▶ Maximum credit exposure of a Bank per a single borrower or a group of related borrowers that should not exceed 10 percent of the Bank's Tier 1 capital on unsecured loan. As at 31 December 2024, the Group's ratio was 10.49% (2023: 11.11%).

The breach of this ratio was caused by investment made for government related projects.

Throughout the year the Bank submitted information regarding these breaches to the CBAR on a monthly basis and no sanctions were imposed on the Bank. Management believes that the Bank will not face any sanctions against the Bank in the future in relation to the mentioned breach.

Financial commitments and contingencies

The Group provides guarantees and letters of credit to customers with primary purpose of ensuring that funds are available to a customer as required. Guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods, to which they relate, or cash deposits and, therefore, carry less risk than a direct borrowing.

(Amounts presented are in thousands of Azerbaijani manats)

22. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

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

	<u>2024</u>	<u>2023</u>
Undrawn loan commitments	2,445,559	1,467,747
Financial guarantees	1,052,344	808,432
Letters of credit	9,880	21,071
Less: provisions for ECL for credit related commitments (Note 16)	(15,579)	(11,094)
Credit related commitments	<u>3,492,204</u>	<u>2,286,156</u>
Performance guarantees	614,667	312,864
Less: provisions for performance guarantees (Note 16)	(2,293)	(2,170)
Commitments and contingencies (before deducting collateral)	<u>4,104,578</u>	<u>2,596,850</u>
Less: cash held as security against guarantees and letters of credit (Note 17)	(43,125)	(26,694)
Commitments and contingencies	<u><u>4,061,453</u></u>	<u><u>2,570,156</u></u>

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

<u>Financial guarantees</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECLs as at 1 January 2024	(871)	(266)	–	(1,137)
New exposures	(2,972)	–	–	(2,972)
Exposures derecognised or matured (excluding write-offs)	577	154	–	731
Transfers to Stage 1	(95)	95	–	–
Transfers to Stage 2	1,519	(1,519)	–	–
Transfers to Stage 3	–	5	(5)	–
Impact on period end ECL of exposures transferred between stages during the period	62	(21)	(9)	32
Changes to inputs used for ECL calculations	17	(114)	–	(97)
Aa at 31 December 2024	<u>(1,763)</u>	<u>(1,666)</u>	<u>(14)</u>	<u>(3,443)</u>
<u>Undrawn loan commitments</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECLs as at 1 January 2024	(6,996)	(2,902)	–	(9,898)
New exposures	(7,367)	–	–	(7,367)
Exposures derecognised or matured (excluding write-offs)	2,090	1,007	–	3,097
Transfers to Stage 1	(1,392)	1,392	–	–
Transfers to Stage 2	2,703	(2,703)	–	–
Transfers to Stage 3	12	47	(59)	–
Impact on period end ECL of exposures transferred between stages during the period	1,319	(1,366)	48	1
Changes to inputs used for ECL calculations	1,970	140	–	2,110
As at 31 December 2024	<u>(7,661)</u>	<u>(4,385)</u>	<u>(11)</u>	<u>(12,057)</u>

(Amounts presented are in thousands of Azerbaijani manats)

22. Commitments and contingencies (continued)**Financial commitments and contingencies (continued)**

<i>Letters of credit</i>	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2024	(59)	–	–	(59)
New exposures	(79)	–	–	(79)
Exposures derecognised or matured (excluding write-offs)	59	–	–	59
Changes to inputs used for ECL calculations	–	–	–	–
As at 31 December 2024	(79)	–	–	(79)

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

<i>Financial guarantees</i>	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2023	(711)	(353)	(47)	(1,111)
New exposures	(880)	–	–	(880)
Exposures derecognised or matured (excluding write-offs)	544	271	47	862
Transfers to Stage 1	(9)	9	–	–
Transfers to Stage 2	193	(193)	–	–
Transfers to Stage 3	–	–	–	–
Impact on period end ECL of exposures transferred between stages during the period	4	(41)	–	(37)
Changes to inputs used for ECL calculations	(12)	41	–	29
Aa at 31 December 2023	(871)	(266)	–	(1,137)

<i>Undrawn loan commitments</i>	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2023	(5,256)	(2,825)	(1,294)	(9,375)
New exposures	(6,405)	–	–	(6,405)
Exposures derecognised or matured (excluding write-offs)	1,891	1,239	577	3,707
Transfers to Stage 1	(1,652)	954	698	–
Transfers to Stage 2	2,076	(2,095)	19	–
Transfers to Stage 3	13	6	(19)	–
Impact on period end ECL of exposures transferred between stages during the period	1,465	(403)	19	1,081
Changes to inputs used for ECL calculations	872	222	–	1,094
As at 31 December 2023	(6,996)	(2,902)	–	(9,898)

<i>Letters of credit</i>	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2023	(79)	(1)	–	(80)
New exposures	(50)	–	–	(50)
Exposures derecognised or matured (excluding write-offs)	68	1	–	69
Changes to inputs used for ECL calculations	2	–	–	2
As at 31 December 2023	(59)	–	–	(59)

(Amounts presented are in thousands of Azerbaijani manats)

23. Net fee and commission income

Net fee and commission income comprises:

	<u>2024</u>	<u>2023</u>
Servicing plastic card operations	295,522	206,211
Settlement operations	89,665	69,193
Cash operations	60,177	35,442
Guarantees and commitments	31,629	18,919
Other	27,418	11,356
Fee and commission income	504,411	341,121
Servicing plastic card operations	(185,422)	(124,241)
Settlement operations	(33,624)	(25,795)
Cash operations	(6,599)	(4,718)
Guarantees and commitments	(598)	(942)
Other	(20,962)	(10,750)
Fee and commission expense	(247,205)	(166,446)
Net fee and commission income	257,206	174,675

24. Other operating income

Other operating income comprise:

	<u>2024</u>	<u>2023</u>
Revenue from sales of goods	39,822	-
Revenue from distribution services	22,327	-
Annual subscription fee for banking packages	7,347	4,370
Early withdrawal fee	6,369	2,082
Other	9,898	6,189
Other operating income	85,763	12,641

25. Other operating expenses

Other operating expenses comprise:

	<u>2024</u>	<u>2023</u>
Cost of goods sold	(36,409)	-
Selling and distribution expense	(22,752)	-
Other	(550)	-
Other operating expenses	(59,711)	-

26. Personnel expenses

Personnel expenses comprise:

	<u>2024</u>	<u>2023</u>
Salaries and bonuses	(263,179)	(188,933)
Social security costs	(45,404)	(33,885)
Other employee related expenses	(8,562)	(5,721)
Personnel expenses	(317,145)	(228,539)

(Amounts presented are in thousands of Azerbaijani manats)

27. General and administrative expenses

General and administrative expenses comprise:

	<u>2024</u>	<u>2023</u>
Repair and maintenance of property and equipment	(47,848)	(27,295)
Marketing and advertising	(43,645)	(26,335)
Legal and consultancy	(28,360)	(22,655)
Sponsorship	(21,082)	(20,081)
Communications	(20,884)	(23,451)
Deposit Insurance Fund expenses	(15,438)	(12,493)
Blank plastic cards	(9,801)	(14,857)
Occupancy and rent	(8,211)	(5,568)
Security	(6,368)	(5,982)
Office supplies	(5,810)	(5,297)
Representation expenses	(5,339)	(5,791)
Membership Fees	(4,543)	(2,581)
Business travel and related expenses	(2,943)	(2,239)
Utilities	(2,696)	(2,425)
Transportation and vehicle maintenance	(2,616)	(2,010)
Insurance on properties and equipment	(1,581)	(1,594)
Taxes other than income tax	(1,334)	(1,823)
Other	(10,263)	(1,907)
General and administrative expenses	<u>(238,762)</u>	<u>(184,384)</u>

Fees charged to the Group for the provision of services by all EY network firms during the year covered by the consolidated financial statements are AZN 467 (2023: AZN 496) and AZN 135 (2023: AZN 92) for audit and non-audit services, respectively

28. Risk management

Introduction

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

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

Risk management structure

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

Supervisory Board

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

Audit Committee

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

Management Board

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

Risk Committee

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

(Amounts presented are in thousands of Azerbaijani manats)

28. Risk management (continued)

Introduction (continued)

Risk Management

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

Bank Treasury

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

Internal Audit

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

Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

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

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

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

Risk mitigation

The Group actively uses collateral to reduce its credit risks.

Excessive risk concentration

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

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

(Amounts presented are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk

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

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the consolidated statement of financial position, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 10.

Impairment assessment

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

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

(Amounts presented are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk (continued)

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

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

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECL.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

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

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

(Amounts presented are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk (continued)

Such events include:

- ▶ Default and Credit-impaired assets:
 - ▶ Loans with principal amount and/or accrued interest and/or any of other payment overdue by more than 90 days from the date specified in the contract;
 - ▶ Stage 3 level restructuring at the reporting date:
 - ▶ Granting a grace period of more than 6 months to the loan repayment schedule;
 - ▶ Extension of the term of loans more than 12 months;
 - ▶ Reduction of the total debt of the borrower/group of borrowers for the next 12 months in the payment schedule in Group by more than 70%;
 - ▶ Restructuring of guarantees converted into a loan;
 - ▶ All restructurings with more than 90 days overdue;
 - ▶ Repayment of loan payments by a 3rd company/person or restructuring in the name of a 3rd party in case of insolvency;
 - ▶ Any loan considered by management as non-performing;
 - ▶ If non-performing loans are observed in other liabilities of the borrower, when the ratio of non-performing liabilities to the total liabilities exceeds 5%;
 - ▶ Retail loans, residential mortgages and private banking retail loans that have been restructured according to the following conditions:
 - ▶ All restructurings with more than 90 days overdue;
 - ▶ For those who have been restructured more than once, if the status of the previous restructured loan was Stage 3 or Stage 2 restructuring at the time of the last restructuring;
 - ▶ Transfer of liabilities under the loan of the borrower to another individual (excluding mortgage loans);
 - ▶ Full or partial forgiveness of accrued interest or principal;
 - ▶ Restructuring of the term of the new loan for a period longer than 7 years (excluding mortgage loans);
- ▶ Granting a grace period of more than 3 (three) months to the loan payment schedule;
- ▶ Existing of information that borrower will/has enter bankruptcy, insolvency or a similar condition;
- ▶ Default (according to IRB and External Rating);
- ▶ Default on other financial instruments of the same borrower.

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

Internal rating and PD estimation process

The Group's Credit Risk Office operates its internal rating models. The Group runs separate models for its key portfolios in which its corporate customers are rated based on Moody's model. Small and medium enterprises are scored from 1 to 20 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

(Amounts presented are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk (continued)

The Group uses specific variables to determine the PD base rates for consumer lending products such as unsecured personal loans, credit cards, and overdrafts. These variables include borrower attributes such as credit history, transaction volumes of customers with debit cards issued by the Group, workplace, region of residence, age, and gender. The selection and weighting of these variables is based on statistical analysis of historical data and expert judgment, ensuring that the PD model accurately predicts the probability of default for different types of borrowers.

Treasury and interbank relationships

The Group's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Group analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below.

Corporate and small business lending

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Group. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- ▶ Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance;
- ▶ Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies;
- ▶ Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates;
- ▶ Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the complexity and size of the customer. Some of the less complex small business loans are rated within the Group's models for retail products.

Consumer lending and residential mortgages

Probability of Default model incorporates a more comprehensive and detailed approach, accounting for a wider range of financial and borrower-specific factors, while the updated staging and recovery criteria consider more specific restructuring conditions.

Consumer lending comprises unsecured cash loans, credit card loans and overdrafts. The Group categorizes these loans into four groups for internal management purposes - non-pension, pension, street and restructured. These categories have specific variables, such as credit history, transaction volumes of customers with debit cards issued by the Group, workplace, region of residence, age, and gender of borrowers, which are used to determine base PD rates. These variables are critical in evaluating the risk of a borrower defaulting on a loan, and they are used to calculate the ECL. The final selection of variables for a predictive model is based on their economic and statistical significance and their relationship with the likelihood of default. Economic significance refers to the practical importance of the variable in predicting a default, while statistical significance is the degree to which the variable is associated with the probability of default. A strong relationship indicates a significant impact on default likelihood, while a moderate relationship indicates a relatively smaller impact.

The Group has implemented modifications to its calculation of ECL for its consumer lending portfolio. The modifications include the adoption of a new Probability of Default (PD) model for behavioural retail loans. The new PD model incorporates a more comprehensive and detailed approach, accounting for a wider range of financial and borrower specific factors. The impact of this change has been quantified at an increase in the ECL by AZN 9,044 as of 31 December 2024. Given the complexity of this modification and the uncertainty surrounding its impact in the future, the Group has determined that it is impracticable to estimate the effect of the changes in future periods. The Group has complied with the disclosure requirements of IAS 8 by disclosing this fact in its financial statements.

(Amounts presented are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk (continued)

Residential mortgages are rated by scorecard tool primarily driven by debt to income (DTI) and payment to income (PTI) ratios. Other key inputs into the models are GDP growth, changes in personal income/salary levels, personal indebtedness.

The Group's internal credit rating grades are as follows:

<i>Internal rating grade for SME</i>	<i>Moody's based internal/external ratings for Corporate and Financial institutions</i>	<i>Internal rating description</i>
1	Aaa	
2-4	Aa1 to Aa3	High grade
5-7	A1 to A3	
8-10	Baa1 to Baa3	
11-13	Ba1 to Ba3	Standard grade
14-16	B1 to B3	
17-19	Caa1 to Caa3	
20	Ca	Sub-standard grade
Default	C	Impaired

Internal rating for consumer and mortgage loans is based on raw PD rate and score of the borrowers, respectively. Hence, mortgage borrowers above than or equal to 1.7 score and consumer loans with less than or equal to 15% raw PD rate are included in Standard grade and vice versa. High grade rating is used for local currency balances of the Central Bank of Azerbaijan Republic and the Ministry of Finance of the Republic of Azerbaijan.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

Loss given default

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

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

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

The Group has implemented modifications to its calculation of LGD for its consumer lending portfolio. The modifications include the application of a 1-year threshold for addition of defaulted loans to LGD calculations and the exclusion of outdated data from 2013 to 2016. These changes aim to improve the accuracy of the Group's risk assessments by ensuring that only relevant data is considered in the ECL estimation. In addition, the segmentation of LGD statistics by loan type has been introduced to better capture the distinct risk profiles of different customer segments. The total impact of these changes has been quantified at a favourable decrease in the ECL by AZN 16,327 as of 31 December 2024. Given the complexity of these modifications and the uncertainty surrounding their impact in the future, the Group has determined that it is impracticable to estimate the effect of the changes in future periods. The Group has complied with the disclosure requirements of IAS 8 by disclosing this fact in its financial statements.

When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group.

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

(Amounts presented are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk (continued)

Significant increase in credit risk

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

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

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

Banking financial assets measured on a collective basis

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

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

- ▶ PD for all corporate and small business lending;
- ▶ LGD for Stage 3 corporate and small business lending which are above predetermined threshold and are collateralized.

Asset classes where the Group calculates ECL on a collective basis include:

- ▶ PD and LGD for all retail consumer and mortgages lending;
- ▶ LGD for all corporate and small business lending which are in Stage 1 and Stage 2;
- ▶ LGD for corporate and small business lending which are in Stage 3, neither are above predetermined threshold nor are collateralized.

Forward-looking information and multiple economic scenarios

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

- ▶ GDP growth rates;
- ▶ NPL rates;
- ▶ Consumption growth rates;
- ▶ Inflation;
- ▶ Unemployment rate;
- ▶ Monetary policy rate;
- ▶ Dynamics of real and nominal effective exchange rates;
- ▶ Real estate price.

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

The Group obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Group's Credit Risk Office determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario as at 31 December 2024.

Climate risk considerations

The effect of climate risk on credit risk was assessed, and the impact in the current year was determined to not be material at 31 December 2024.

(Amounts presented are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

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

31 December 2024	Note	High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand and in transit	7	82,850	358,346	1,354	-	442,550
	Stage 2	-	-	18,465	-	18,465
Amounts due from credit institutions	8	1,235,174	315,672	-	-	1,550,846
	Stage 2	-	-	1,908	-	1,908
Loans to customers at amortised cost	10					
	Stage 1	-	389,423	1,883	-	391,306
- Government related entities	Stage 2	-	-	21,549	-	21,549
	Stage 3	-	-	-	129	129
	Stage 1	-	541,316	40,248	-	581,564
- Corporate loans	Stage 2	-	29,035	52,486	-	81,521
	Stage 3	-	-	-	15,778	15,778
	Stage 1	-	1,987,650	11,984	-	1,999,634
- Loans to individuals – consumer loans	Stage 2	-	69,604	70,402	-	140,006
	Stage 3	-	-	-	83,062	83,062
	Stage 1	-	581,348	-	-	581,348
- Loans to individuals – mortgage loans	Stage 2	-	18,843	7,340	-	26,183
	Stage 3	-	-	-	1,776	1,776
	Stage 1	-	539,347	1,648	-	540,995
- Loans to individual entrepreneurs	Stage 2	-	6,288	9,709	-	15,997
	Stage 3	-	-	-	13,105	13,105
Debt securities at amortised cost	9	798,907	1,939,506	-	-	2,738,413
	Stage 3	-	-	-	312	312
Debt securities at FVOCI	9	226,091	-	-	-	226,091
	Stage 1	-	803,829	64,846	-	868,675
Financial guarantees	22	-	48,098	135,547	-	183,645
	Stage 3	-	-	-	24	24
	Stage 1	-	1,864,229	457,579	-	2,321,808
Undrawn loan commitments	22	-	50,533	68,156	-	118,689
	Stage 3	-	-	-	5,062	5,062
Letters of credit	22	-	8,893	987	-	9,880
Total		<u>2,343,022</u>	<u>9,551,960</u>	<u>966,091</u>	<u>119,248</u>	<u>12,980,321</u>

(Amounts presented are in thousands of Azerbaijani manats)

28. Risk management (continued)**Credit risk (continued)**

31 December 2023	Note	High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand and in transit	7	Stage 1 268,513	135,966	-	-	404,479
		Stage 2 -	-	8,131	-	8,131
Amounts due from credit institutions	8	Stage 1 1,112,293	183,986	-	-	1,296,279
Loans to customers at amortised cost	10	Stage 1 -	378,094	-	-	378,094
- Government related entities		Stage 3 -	-	-	59	59
		Stage 1 -	511,044	48,736	-	559,780
		Stage 2 -	10,046	27,391	-	37,437
- Corporate loans		Stage 3 -	-	-	8,325	8,325
		Stage 1 -	1,798,833	4,223	-	1,803,056
- Loans to individuals – consumer loans		Stage 2 -	51,042	39,594	-	90,636
		Stage 3 -	-	-	64,139	64,139
		Stage 1 -	543,797	-	-	543,797
- Loans to individuals – mortgage loans		Stage 2 -	25,767	749	-	26,516
		Stage 3 -	-	-	888	888
		Stage 1 -	354,633	1,424	-	356,057
- Loans to individual entrepreneurs		Stage 2 -	4,824	4,185	-	9,009
		Stage 3 -	-	-	5,655	5,655
Debt securities at amortised cost	9	Stage 1 804,339	421,000	56,174	-	1,281,513
		Stage 3 -	-	-	2,691	2,691
Debt securities at FVOCI	9	Stage 1 304,938	-	-	-	304,938
Financial guarantees	22	Stage 1 -	694,512	84,875	-	779,387
		Stage 2 -	10,332	21,413	-	31,745
		Stage 1 -	1,389,419	21,585	-	1,411,004
Undrawn loan commitments	22	Stage 2 -	38,163	17,166	-	55,329
		Stage 3 -	-	-	1,414	1,414
Letters of credit	22	Stage 1 -	11,797	-	-	11,797
		Stage 2 -	-	9,274	-	9,274
Total		2,490,083	6,563,255	344,920	83,171	9,481,429

More detailed information with respect to the allowance for impairment of loans to customers is provided in Note 10.

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

(Amounts presented are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk (continued)

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

	2024				2023			
	Azerbaijan	OECD	CIS and other countries	Total	Azerbaijan	OECD	CIS and other countries	Total
Assets								
Cash and cash equivalents	1,434,948	101,297	34,085	1,570,330	1,097,164	200,017	33,210	1,330,391
Amounts due from credit institutions	1,505,579	39,489	7,686	1,552,754	1,252,090	16,303	27,886	1,296,279
Investment securities	2,016,836	953,849	5,716	2,976,401	1,406,059	182,328	7,310	1,595,697
Loans to customers	4,992,830	-	-	4,992,830	4,109,783	-	718	4,110,501
Other financial assets	155,299	17,546	2,944	175,789	200,777	20,033	3,669	224,479
	10,105,492	1,112,181	50,431	11,268,104	8,065,873	418,681	72,793	8,557,347
Liabilities								
Amounts due to customers	8,897,235	14,644	65,273	8,977,152	6,304,575	10,134	29,780	6,344,489
Amounts due to the Central Bank of the Republic of Azerbaijan, and government organizations	514,085	-	-	514,085	436,904	-	-	436,904
Debt Securities issued	365,864	-	-	365,864	59,578	-	-	59,578
Amounts due to credit institutions	207,152	13	9,756	216,921	598,815	13	8,954	607,782
Other financial liabilities	184,417	135	79	184,631	100,447	71	43	100,561
	10,168,753	14,792	75,108	10,258,653	7,500,319	10,218	38,777	7,549,314
Net (liabilities)/assets	(63,261)	1,097,389	(24,677)	1,009,451	565,554	408,463	34,016	1,008,033

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

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

The liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the CBAR. The CBAR requires Systemically Important Banks to maintain instant liquidity ratio of more than 30% (2023: 30%) and liquidity coverage ratio more than 90% (2023: no established limit). As at 31 December, these ratios were as follows:

	2024, %	2023, %
Instant Liquidity Ratio per regulator	47.29	41.22
Liquidity coverage ratio per regulator	145.83	97.28

(Amounts presented are in thousands of Azerbaijani manats)

28. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

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

As at 31 December 2024	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities					
Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations	72,071	35,889	132,420	397,697	638,077
Amounts due to credit institutions	211,421	116	6,630	-	218,167
Amounts due to customers	6,429,502	69,535	2,717,529	21,597	9,238,163
Debt Securities issued	9,432	115,887	88,043	273,204	486,566
Lease liability	4,217	12,420	34,286	62,277	113,200
Other financial liabilities	184,631	-	-	-	184,631
Total undiscounted financial liabilities	6,911,274	233,847	2,978,908	754,775	10,878,804
As at 31 December 2023					
Financial liabilities					
Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations	91,646	30,215	108,529	304,725	535,115
Amounts due to credit institutions	566,584	46,511	30	-	613,125
Amounts due to customers	4,992,003	1,134,942	293,648	7,582	6,428,175
Debt Securities issued	1,076	2,996	71,418	-	75,490
Lease liability	3,461	9,398	31,125	2,453	46,437
Other financial liabilities	100,561	-	-	-	100,561
Total undiscounted financial liabilities	5,755,331	1,224,062	504,750	314,760	7,798,903

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

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2024	2,830,447	543,667	135,109	-	3,509,223
2023	1,623,752	569,210	106,988	-	2,299,950

Financial guarantees, letter of credits and performance guarantees could be called anytime throughout the period of agreement upon request of borrower, however the Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

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

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

(Amounts presented are in thousands of Azerbaijani manats)

28. Risk management (continued)

Market risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of financial instruments. The sensitivity of current year profit is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2024. The Group does not have substantial amount of floating rate non-trading financial instruments as at 31 December 2024 and 2023.

Currency risk

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

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

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

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

		<u>2024</u>		<u>2023</u>
USD	+2%/-2%	1,284 / (1,284)	+10%/-10%	29,639 / (29,639)
EUR	+8.59%/-5.53%	106 / (68)	+10%/-10%	258 / (258)

Operational risk

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

29. Fair value measurements

Fair value hierarchy

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

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

(Amounts presented are in thousands of Azerbaijani manats)

29. Fair value measurements (continued)

Fair value hierarchy (continued)

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

	<i>Date of valuation</i>	<i>Fair value measurement using</i>			<i>Total</i>
		<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	
Assets measured at fair value					
Investment securities – debt securities at FVOCI	31 December 2024	–	226,091	–	226,091
Investment securities – equity securities at FVOCI	31 December 2024	12,302	–	3,003	15,305
Loans to customers – consumer loans at FVPL	31 December 2024	–	–	670,721	670,721
Derivative financial assets at FVPL – Currency swaps	31 December 2024	–	83	–	83
Property and equipment – premises	31 December 2024	–	–	6,588	6,588
Assets for which fair values are disclosed					
Investment securities measured at amortised cost	31 December 2024	1,000,830	1,658,716	55,424	2,714,970
Amounts due from credit institutions	31 December 2024	–	–	1,552,754	1,552,754
Loans to customers measured at amortised cost	31 December 2024	–	681,028	3,619,132	4,300,160
Other financial assets (excluding derivative financial assets)	31 December 2024	–	–	175,706	175,706
Liabilities for which fair values are disclosed					
Amounts due to customers	31 December 2024	–	6,405,903	2,563,637	8,969,540
Amounts due to the CBAR and government organizations	31 December 2024	–	512,739	1,346	514,085
Amounts due to credit institutions	31 December 2024	–	176,775	40,146	216,921
Debt securities issued	31 December 2024	–	365,864	–	365,864
Other financial liabilities	31 December 2024	–	–	184,631	184,631

(Amounts presented are in thousands of Azerbaijani manats)

29. Fair value measurements (continued)**Fair value hierarchy (continued)**

	<i>Date of valuation</i>	<i>Fair value measurement using</i>			<i>Total</i>
		<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	
Assets measured at fair value					
Investment securities – debt securities at FVOCI	31 December 2023	–	304,938	–	304,938
Investment securities – equity securities at FVOCI	31 December 2023	10,052	–	3,003	13,055
Loans to customers – consumer loans at FVPL	31 December 2023	–	–	364,560	364,560
Derivative financial assets at FVPL – Currency swaps	31 December 2023	–	5,346	–	5,346
Property and equipment – premises	31 December 2023	–	–	6,842	6,842
Assets for which fair values are disclosed					
Investment securities measured at amortised cost	31 December 2023	454,520	755,305	53,750	1,263,575
Amounts due from credit institutions	31 December 2023	–	–	1,296,279	1,296,279
Loans to customers measured at amortised cost	31 December 2023	–	571,201	3,194,390	3,765,591
Other financial assets (excluding derivative financial assets)	31 December 2023	–	–	219,133	219,133
Liabilities for which fair values are disclosed					
Amounts due to customers	31 December 2023	–	4,814,002	1,525,610	6,339,612
Amounts due to the CBAR and government organizations	31 December 2023	–	434,614	2,180	436,794
Amounts due to credit institutions	31 December 2023	–	549,032	58,750	607,782
Debt securities issued	31 December 2023	–	59,578	–	59,578
Other financial liabilities	31 December 2023	–	–	100,561	100,561

(Amounts presented are in thousands of Azerbaijani manats)

29. Fair value measurements (continued)

Movements in Level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value. Transfers from Level 3 to Level 2 occur when the market for some securities became more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. Since the transfer, these instruments have been valued using valuation models incorporating observable market inputs. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid. Therefore, the Bank requires significant unobservable inputs to calculate their fair value.

The following tables show the reconciliation of the opening and closing amounts of Level 3 financial assets measured at fair value:

<i>As at 31 December 2024</i>	<i>At 1 January 2024</i>	<i>Purchase</i>	<i>Sales</i>	<i>Issuances</i>	<i>Settlements</i>	<i>Transfers</i>	<i>Transfer from Level 3</i>	<i>Net interest income, net trading income and other income</i>	<i>Other comprehen sive income</i>	<i>Exchange rate differences</i>	<i>At 31 December 2024</i>	<i>Unrealised gains and losses related to balances held at the end of the period</i>
Assets measured at fair value on a recurring basis												
Investment securities – equity securities at FVOCI	3,003	-	-	-	-	-	-	-	-	-	3,003	-
Loans to customers – consumer loans at FVPL	364,560	-	-	722,505	(416,344)	-	-	117,130	-	-	670,721	-
Total financial assets measured at fair value	367,563	-	-	722,505	(416,344)	-	-	117,130	-	-	673,724	-

<i>As at 31 December 2023</i>	<i>At 1 January 2023</i>	<i>Purchase</i>	<i>Sales</i>	<i>Issuances</i>	<i>Settlements</i>	<i>Transfers</i>	<i>Transfer from Level 3</i>	<i>Net interest income, net trading income and other income</i>	<i>Other comprehe nsive income</i>	<i>Exchange rate differences</i>	<i>At 31 December 2023</i>	<i>Unrealised gains and losses related to balances held at the end of the period</i>
Assets measured at fair value on a recurring basis												
cc	3,003	-	-	-	-	-	-	-	-	-	3,003	-
Loans to customers – consumer loans at FVPL	140,973	-	-	329,463	(105,876)	-	-	38,541	-	-	364,560	-
Total financial assets measured at fair value	143,976	-	-	329,463	(105,876)	-	-	38,541	-	-	367,563	-

(Amounts presented are in thousands of Azerbaijani manats)

29. Fair value measurements (continued)

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

	<u>31 December 2024</u>			<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>31 December 2024</u>				<u>Unit</u>		
	<u>Fair value of</u>					<u>Range of Inputs</u>		<u>Full range</u>			<u>Core range</u>	
	<u>Level 3 Assets</u>	<u>Level 3 Liabilities</u>				<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>			
Investment securities – equity securities at FVOCI *	3,003		Market proxy	Instrument Price								
				Prepayment rate	–	100	2	30		%		
Loans to customers – consumer loans at FVPL	670,721		Discounted projected cash flow	Recovery rates	–	61	26	49		%		
				Discount margin/spread	16	22	20	21		%		
	<u>31 December 2023</u>			<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>31 December 2023</u>				<u>Unit</u>		
	<u>Fair value of</u>					<u>Range of Inputs</u>		<u>Full range</u>			<u>Core range</u>	
	<u>Level 3 Assets</u>	<u>Level 3 Liabilities</u>				<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>			
Investment securities – equity securities at FVOCI *	3,003	–	Market proxy	Instrument Price								
				Prepayment rate	–	100	2	37		%		
Loans to customers – consumer loans at FVPL	403,101	–	Discounted projected cash flow	Recovery rates	–	37	27	37		%		
				Discount margin/spread	16	21	19	20		%		

* Given the wide range of diverse investments and the correspondingly large differences in prices, the Bank does not disclose the ranges as it believes it would not provide meaningful information without a full list of the underlying investments, which would be impractical.

(Amounts presented are in thousands of Azerbaijani manats)

29. Fair value measurements (continued)

Quantitative analysis of significant unobservable inputs

Discount margin/spreads

Discount margin/spreads represent the discount rates used when calculating the present value of future cash flows. In discounted cash flow models, such spreads are added to the benchmark rate when discounting the future expected cash flows. Hence, these spreads reduce the net present value of an asset or increase the value of a liability. They generally reflect the premium an investor expects to achieve over the benchmark interest rate to compensate for the higher risk driven by the uncertainty of the cash flows caused by the credit quality of the asset. They can be implied from market prices and are usually unobservable for illiquid or complex instruments.

Recovery rates

Recovery rates reflect the estimated loss that the Bank will suffer given expected defaults. The recovery rate is given as a percentage and reflects the opposite of loss severity (i.e., 100% recovery reflects 0% loss severity). In line with general market convention, loss severity is applied to asset-backed securities while recovery rate is more often used as pricing input for corporate or government instruments. Higher loss severity levels / lower recovery rates indicate lower expected cash flows upon the default of the instruments. Recovery rates for complex, less liquid instruments are usually unobservable and are estimated based on historical data.

Prepayment rates

Prepayment rates represent the expected future speed at which a loan portfolio will be repaid ahead of the contractual terms of the underlying loans. They are important inputs into valuation of asset-backed securities. When there is insufficient market data to provide observable rates, the Bank uses a variety of evidence such as rates from proxy portfolios or other macroeconomic modelling.

Sensitivity of fair value measurements to changes in unobservable market data

The table below describes the effect of changing the significant unobservable inputs to reasonable possible alternatives. All changes except for debt instruments classified as fair value through other comprehensive income (FVOCI) would be reflected in the Income statement. Sensitivity data are calculated using a number of techniques, including analysing price dispersion of different price sources, adjusting model inputs to reasonable changes within the fair value methodology.

The ranges are not comparable or symmetrical as the model inputs are usually not in the middle of the favourable/unfavourable range.

The table below shows data in relation to Level 3 inputs that are already aggregated on the underlying product levels without assuming any potential diversification effect, but including potential off-sets from economic or accounting hedge relationships in place. The Bank is of the opinion that, whilst there may be some diversification benefits, incorporating these would not be significant to the analysis.

	31 December 2024		31 December 2023	
	<i>Favourable changes</i>	<i>Unfavourable changes</i>	<i>Favourable changes</i>	<i>Unfavourable changes</i>
Investment securities – equity securities at FVOCI	40	(30)	35	(25)
Loans to customers – consumer loans at FVPL	11,682	(11,367)	6,211	(5,974)
Total	11,722	(11,397)	6,246	(5,999)

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

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

(Amounts presented are in thousands of Azerbaijani manats)

29. Fair value measurements (continued)

Fair value hierarchy (continued)

	<i>Carrying value 2024</i>	<i>Fair value 2024</i>	<i>Unrealized gain/(loss)</i>	<i>Carrying value 2023</i>	<i>Fair value 2023</i>	<i>Unrealized gain/(loss)</i>
Financial assets						
Amounts due from credit institutions	1,552,754	1,552,754	-	1,296,279	1,296,279	-
Investment securities – debt securities at amortized cost	2,735,005	2,714,970	(20,035)	1,277,704	1,263,575	(14,129)
Loans to customers at amortized cost	4,322,109	4,300,160	(21,949)	3,745,941	3,765,591	19,650
Other financial assets (excluding derivative financial assets)	175,706	175,706	-	219,133	219,133	-
Financial liabilities						
Amounts due to customers	8,977,152	8,969,540	7,612	6,344,489	6,339,612	4,877
Amounts due to the CBAR and government organizations	514,085	514,085	-	436,904	436,794	110
Amounts due to credit institutions	216,921	216,921	-	607,782	607,782	-
Debt securities issued	365,864	365,864	-	59,578	59,578	-
Other financial liabilities	184,631	184,631	-	100,561	100,561	-
Total unrecognized change in unrealized fair value			<u>(34,372)</u>			<u>10,508</u>

Valuation techniques and assumptions

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

Loans at fair value through profit or loss

Loans at fair value through profit or loss and mandatorily required to be measured at FVPL (those that did not meet the SPPI criteria), are valued using a combination of approaches. For the specified loans, a discounted cash flow model has been employed, incorporating a weighted average interest rate obtained from the recent loan issuances by the major market makers within the locale. The non-observable inputs to the model include adjustment for credit risk associated with the expected cash flows from the borrower's operations, specifically for loans exhibiting significant increases in credit risk or identified impairments.

Loans at amortised cost

Where appropriate, the respective loans are valued with reference to observable prices of debt securities issued by the borrower or by comparable entities. In other cases, valuation is performed using internal models based on present value techniques or, in some circumstances (for example, in respect of cash flow from assets held as collateral), external valuation reports. The non-observable inputs to the models include adjustments for credit, market and liquidity risks associated with the expected cash flows from the borrower's operations or in respect of collateral valuation.

Assets for which fair value approximates carrying value

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

(Amounts presented are in thousands of Azerbaijani manats)

29. Fair value measurements (continued)

Fair value hierarchy (continued)

Derivatives

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

Investment securities

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

Financial assets and financial liabilities carried at amortized cost

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

30. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 28 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2024			2023		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	1,570,330	–	1,570,330	1,330,391	–	1,330,391
Amounts due from credit institutions	1,511,906	40,848	1,552,754	1,253,762	42,517	1,296,279
Investment securities	1,427,170	1,549,231	2,976,401	680,271	915,426	1,595,697
Loans to customers	1,844,063	3,148,767	4,992,830	1,590,665	2,519,836	4,110,501
Investment in associate	–	–	–	–	11,315	11,315
Right-of-use assets	–	95,781	95,781	–	32,605	32,605
Property and equipment	–	142,960	142,960	–	91,813	91,813
Goodwill and Other Intangible assets	–	71,826	71,826	–	40,135	40,135
Current income tax asset	9,995	–	9,995	–	–	–
Other assets	217,995	17,204	235,199	246,891	54,627	301,518
Total	6,581,459	5,066,617	11,648,076	5,101,980	3,708,274	8,810,254
Amounts due to the CBAR and government organizations	102,455	411,630	514,085	113,016	323,888	436,904
Amounts due to credit institutions	210,306	6,615	216,921	607,752	30	607,782
Amounts due to customers	6,413,048	2,564,104	8,977,152	6,080,268	264,221	6,344,489
Current tax liabilities	–	–	–	17,655	–	17,655
Deferred income tax liabilities	–	20,924	20,924	–	15,782	15,782
Lease liabilities	10,054	66,609	76,663	8,819	30,778	39,597
Debt securities issued	102,364	263,500	365,864	78	59,500	59,578
Other liabilities	326,209	–	326,209	206,843	–	206,843
Total	7,164,436	3,333,382	10,497,818	7,034,431	694,199	7,728,630
Net	(582,977)	1,733,235	1,150,258	(1,932,451)	3,014,075	1,081,624

(Amounts presented are in thousands of Azerbaijani manats)

30. Maturity analysis of assets and liabilities (continued)

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

Management believes that in spite of a substantial portion of amounts due to customers being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group indicates that these amounts provide a long-term and stable source of funding for the Group. The considerable part of amounts due to customers that is comprised of large number of individually insignificant accounts demonstrate the behaviour of a long-term financing, if taken as a whole. The Group considers it to be unlikely that unusually large number of customers will withdraw their funds in a short time span.

The customers who hold the largest current account deposits with the Group have a long established history as the Group's customers. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment.

The CBAR's minimum liquidity norm of 30% (2023: 30%) and minimum liquidity coverage norm of 90% (2023: no established limit) for Systemically Important Banks are a reasonable precautionary measure taken by the regulator, which is based on the nature and established normal business practice in banking industry. The Bank has a reasonably high headroom above the minimum required liquidity ratios. The Bank's actual instant liquidity ratio is 47.29% and liquidity coverage ratio is 145.83% as at 31 December 2024 (2023: instant liquidity ratio 41.22%, liquidity coverage ratio 97.28%).

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

31. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(Amounts presented are in thousands of Azerbaijani manats)

31. Related party disclosures (continued)

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

	2024				2023			
	Share-holders / ultimate owners	Entities under common control	Other related parties	Key management personnel	Share-holders / ultimate owners	Entities under common control	Other related parties	Key management personnel
Loans outstanding at 1 January, gross	-	2,857	43,768	12,158	-	31,476	40,717	9,288
Loans issued during the year	-	7,134	76,896	17,110	-	8,932	78,715	20,802
Loan repayments during the year	-	(9,983)	(66,482)	(21,630)	-	(37,362)	(75,712)	(17,946)
Other movements	-	(8)	76	(43)	-	(189)	48	14
Loans outstanding at 31 December, gross	-	-	54,258	7,595	-	2,857	43,768	12,158
Less: allowance for impairment at 31 December	-	-	(277)	(40)	-	(14)	(333)	(51)
Loans outstanding at 31 December, net	-	-	53,981	7,555	-	2,843	43,435	12,107
Due from Credit Institutions	-	4,593	134	-	-	29,618	395	-
Interest income due from Credit Institutions	-	553	-	-	-	907	-	-
Interest income on loans	-	6,807	5,082	735	-	11,332	4,117	941
Impairment reversal/(charge) for loans	-	14	56	11	-	227	(126)	187
Right-of-use asset	-	80,799	530	-	-	18,220	712	-
Depreciation of right-of-use assets	-	(9,329)	(182)	-	-	(4,480)	(182)	-
Other assets	21	39,774	96	-	21	45,277	203	-
Deposits at 1 January	1,201	2,027	33,692	33,313	1,360	1,195	10,078	32,043
Deposits received during the year	34,170	1,780	8,563	42,123	-	3,301	33,200	18,838
Deposits repaid during the year	(12,170)	(1,872)	(1,348)	(39,418)	-	(2,509)	(10,000)	(17,588)
Other movements	2,530	66	183	116	(159)	40	414	20
Deposits at 31 December	25,731	2,001	41,090	36,134	1,201	2,027	33,692	33,313
Current accounts at 31 December	31,763	33,631	11,777	6,899	10,433	38,459	5,508	7,983
Cash and cash equivalents	-	12,855	-	-	-	9,734	-	-
Investment Securities	-	2,035	-	-	-	20,942	-	-
Interest income on Investment securities	-	-	-	-	-	2,365	-	-
Lease liability	-	60,169	528	-	-	26,531	792	-
Interest expense on lease liability	-	(5,521)	(68)	-	-	(2,895)	(96)	-
Debt Securities issued	5,202	8,500	337	43,133	25,535	-	-	4,955
Interest expenses on debt securities issued	(2,821)	(314)	(17)	(1,603)	(1,697)	-	-	(310)
Other amounts owed to credit institutions	-	18,575	316	-	-	65,911	25,810	-
Other liabilities	865	7,182	186	-	63	1,340	-	-
Interest expense on other amounts owed to credit institutions	-	(4,167)	-	-	-	(2,471)	-	-
Interest expense on deposits	(1,308)	(110)	(1,416)	(1,584)	(81)	(67)	(1,558)	(742)
General and administrative expenses	(1,577)	(42,062)	(2,601)	-	(7)	(21,611)	(7,275)	-
Personnel expenses	-	(2,604)	-	-	-	(2,415)	(3)	-
Commission Income	7	27,220	613	41	57	28,144	3,670	21
Other operating income	3,078	-	-	-	-	-	-	-
Commission expense	-	(3,424)	(10,136)	-	(155)	(6,938)	(5,540)	-
Other operating expense	-	(825)	-	-	-	-	-	-
Net gains/(loss) from foreign currencies: dealing	2	835	737	39	6	461	964	36
Letters of credit and guarantees issued	-	110	19,799	-	-	495	21,328	-
Unused credit lines	-	500	3,050	5,077	-	2,431	4,382	1,405

Items included under "Entities under common control" comprised of the entities under collective control of the ultimate owners.

(Amounts presented are in thousands of Azerbaijani manats)

31. Related party disclosures (continued)

The terms and conditions of transactions with related parties, such as the range of interest rates, are as follows for each class of related parties:

	2024				2023			
	Share-holders / ultimate owners	Entities under common control	Other related parties	Key management personnel	Share-holders / ultimate owners	Entities under common control	Other related parties	Key management personnel
Loans to customers	-	-	5%-17%	4%-35%	-	10%-13%	10-17%	4%-30%
Investment securities	-	-	-	-	-	11%	-	-
Due from Credit Institutions	-	8%	-	-	-	4%-5%	-	-
Debt securities issued	7%	7%	7%	6%-10%	7%	-	-	6%-7%
Lease liability	-	10%-11%	10%	-	-	10%-11%	10%	-
Other amounts owed to credit institutions	-	-	-	-	-	11%	-	-
Deposits	3%-4%	3%-8%	2%-8%	1%-11%	1%-8%	3%-7%	2%-6%	1%-9%

The terms and conditions of transactions with related parties, such as maximum remaining maturities with years, are as follows for each class of related parties:

	2024				2023			
	Share-holders / ultimate owners	Entities under common control	Other related parties	Key management personnel	Share-holders / ultimate owners	Entities under common control	Other related parties	Key management personnel
Loans to customers	-	3	3	26	-	3	3	27
Investment securities	-	-	-	-	-	1	-	-
Due from Credit Institutions	-	6	-	-	-	2	-	-
Debt securities issued	7	7	6	7	4	-	-	4
Lease liability	-	10	3	-	-	9	4	-
Other amounts owed to credit institutions	-	-	-	-	-	1	-	-
Deposits	2	1	2	3	3	1	1	3

The compensation of key management personnel is as follows:

	2024	2023
Salaries and other benefits	40,943	32,207
Social security costs	6,643	5,241
Total key management personnel compensation	47,586	37,448

(Amounts presented are in thousands of Azerbaijani manats)

32. investments in associates

The following associates are accounted for under the equity method:

Associates	Ownership/ voting, %	Principal place of business	Country of incorporation	Nature of activities	Carrying value
31 December 2024					
"Competo" LLC	X	Azerbaijan	Azerbaijan	Financial	-
Total carrying value of investments in associates					-
Associates	Ownership/ voting, %	Principal place of business	Country of incorporation	Nature of activities	Carrying value
31 December 2023					
"Competo" LLC	48%	Azerbaijan	Azerbaijan	Financial	11,315
Total carrying value of investments in associates					11,315

The table below summarizes the movements in the investment in an associate:

	2024	2023
Investment in an associates, 1 January	11,315	2,730
Investments made during the year	-	21,876
Fair value of interest in associate given up for acquiring it as subsidiary	(9,389)	-
Share of net loss of the associates	(1,926)	(13,291)
Investment in an associates, 31 December	-	11,315

At 31 December 2024 the share of loss of an associate of AZN 1,926 (2023: AZN 13,291) has been recorded in the consolidated statement of profit or loss.

During 2023, the Group performed impairment test for investment in associate using future cash flows while assessing the recoverable amount. Recoverable amount (value in use) of business is calculated by identifying present value of future cash flows using WACC, and as a result, the Group concluded that there is no impairment arising related the investment in associate.

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The following table illustrates summarized financial information of associates:

Assets and liabilities of the associate ("Competo" LLC)	2024	2023
Assets	X	29,849
Liabilities	X	(34,331)
Net assets	X	(4,482)
Revenues and expenses of the associate ("Competo" LLC)	2024	2023
Revenues	X	25,879
Expenses	X	(58,219)
Net loss for the year	X	(32,340)

(Amounts presented are in thousands of Azerbaijani manats)

33. Capital adequacy

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

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

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

The CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum capital adequacy ratio of 6% (2023: 6%) and 12 % (2023: 12%) for Tier 1 Capital and Total Capital, respectively, based on its guidelines.

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

	<u>2024</u>	<u>2023</u>
Tier 1 capital after deductions	643,761	583,113
Tier 2 capital	481,370	324,544
Less: deductions from total capital	(148,504)	(74,554)
Total regulatory capital	<u>976,627</u>	<u>833,103</u>
Risk weighted assets	<u>7,350,436</u>	<u>6,360,351</u>
Capital adequacy ratio (Tier 1)	8.76%	9.17%
Capital adequacy ratio (Total Capital)	13.29%	13.10%

34. Events after the reporting period

Brand Strategy and Rebranding:

Starting from 2025, the Bank will operate under the "Birbank" brand as the center of the Ecosystem. This rebranding initiative reflects the Bank's commitment to a more digital and customer-centric approach, with an emphasis on enhancing customer experience and expanding digital offerings. As a result, all communications, products, and services will be aligned under the "Birbank" brand.

It is important to note that the "Kapital Bank" brand will continue to be used in official and legal documents as the name of the financial institution. The transition to "Birbank" will focus on the customer-oriented strategy, while the "Kapital Bank" name remains associated with the official identity of the institution.

Other events

In January 2025., the Group made additional investment in "Competo LLC" in amount of AZN 10,500.

On January 24, 2025, the Group had issued USD bonds amounting to AZN 42,500 with 7% coupon rate and 7 years' maturity period.