OJSC Kapital Bank

Separate financial statements

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

Contents

Building a better working world

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Independent auditor's report

To the Shareholders and Supervisory Board of
OJSC Kapital Bank

Report on the audit of the separate financial statements

Opinion

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

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at 31 December 2024, and its separate financial performance and its separate 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 separate financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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 separate 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 separate 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 separate financial statements.

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 Bank'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 Bank 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 9 – *Loan to customers,* Note 21 – *Commitments and contingencies, and* Note 26 – *Risk management to the separate financial statements.*	Our audit procedures, among others, comprised of the following: ▸ We evaluated the expected credit loss methodology developed by the Bank 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 Bank'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 Bank'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 separate financial statements in relation to the allowance for impairment of loans to customers and provisions for credit-related commitments.

Other information included in the Bank's 2024 Annual Report

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

Our opinion on the separate 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 separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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 separate financial statements

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

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

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

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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 separate 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

18 March 2025

Separate statement of financial position

As at 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	2024	2023
Assets			
Cash and cash equivalents	6	1,408,953	1,149,545
Amounts due from credit institutions	7	1,544,786	1,289,482
Investment securities	8	2,976,401	1,595,697
Loans to customers	9	4,996,845	4,110,501
Investment in subsidiary	1	137,040	63,090
Right-of-use assets	12	90,036	29,264
Property and equipment	10	123,111	80,336
Intangible assets	11	35,035	29,587
Current income tax assets		8,912	–
Other assets	15	232,375	446,817
Total assets		**11,553,494**	**8,794,319**
Liabilities			
Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations	18	514,085	436,904
Amounts due to credit institutions	19	52,535	482,496
Amounts due to customers	16	9,051,456	6,464,415
Current income tax liabilities		–	18,618
Deferred income tax liabilities	13	29,584	23,206
Lease liabilities	12	70,678	36,066
Debt securities issued	17	365,864	59,578
Other liabilities	15	248,531	151,956
Total liabilities		**10,332,733**	**7,673,239**
Equity			
Share capital	20	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		922,979	823,778
Total equity		**1,220,761**	**1,121,080**
Total liabilities and equity		**11,553,494**	**8,794,319**

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

18 March 2025

The accompanying notes on pages 6 to 70 are an integral part of these separate financial statements.

Separate 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		655,344	545,374
Investment securities		80,805	106,061
Cash and cash equivalents		40,194	27,792
Amounts due from credit institutions		2,187	3,513
Interest income calculated using effective interest rate		**778,530**	**682,740**
Loans to customers at fair value through profit or loss		117,130	38,541
Other interest income		**117,130**	**38,541**
Total interest income		**895,660**	**721,281**
Interest expense			
Amounts due to customers		(177,250)	(81,698)
Amounts due to credit institutions		(21,242)	(10,750)
Debt securities issued		(15,619)	(3,995)
Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations		(11,313)	(8,722)
Lease liabilities	12	(7,238)	(4,507)
Other		–	(330)
		(232,662)	**(110,002)**
Net interest income		**662,998**	**611,279**
Credit loss expense on financial assets	14	(56,197)	(17,184)
Net interest income after credit loss expense		**606,801**	**594,095**
Fee and commission income	22	443,939	307,567
Fee and commission expense	22	(273,448)	(175,768)
Net fee and commission income	22	**170,491**	**131,799**
Net gains from foreign currencies		52,431	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)
Other operating income	23	21,879	12,157
Non-interest income		**238,697**	**198,875**
Personnel expenses	24	(249,379)	(204,216)
General and administrative expenses	25	(180,515)	(157,673)
Depreciation of property and equipment and amortisation of intangible assets	10, 11	(46,032)	(32,403)
Depreciation of right-of-use assets	12	(15,791)	(9,478)
Charge for impairment for credit related commitments and other impairment, net	14	(4,608)	(619)
Non-interest expenses		**(496,325)**	**(404,389)**
Profit before income tax expense		**349,173**	**388,581**
Income tax expense	13	(73,860)	(84,417)
Profit for the year		**275,313**	**304,164**

The accompanying notes on pages 6 to 70 are an integral part of these separate financial statements.

Separate 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		**275,313**	**304,164**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
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**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of premises	10	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		**275,793**	**306,173**

The accompanying notes on pages 6 to 70 are an integral part of these separate financial statements.

Separate 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 Equity*
1 January 2023	**265,850**	**20,870**	**6,506**	**2,067**	**690,714**	**986,007**
Profit / (loss) for the year	–	–	–	–	304,164	**304,164**
Other comprehensive income / (loss) for the year	–	–	1,676	333	–	**2,009**
Total comprehensive income / (loss) for the year	–	–	**1,676**	**333**	**304,164**	**306,173**
Dividends to shareholders of the Bank (Note 20)	–	–	–	–	(171,100)	**(171,100)**
31 December 2023	**265,850**	**20,870**	**8,182**	**2,400**	**823,778**	**1,121,080**
Profit / (loss) for the year	–	–	–	–	275,313	**275,313**
Other comprehensive income for the year	–	–	150	330	–	**480**
Total comprehensive income / (loss) for the year	–	–	**150**	**330**	**275,313**	**275,793**
Dividends to shareholders of the Bank (Note 20)	–	–	–	–	(176,112)	**(176,112)**
31 December 2024	**265,850**	**20,870**	**8,332**	**2,730**	**922,979**	**1,220,761**

The accompanying notes on pages 6 to 70 are an integral part of these separate financial statements.

Separate statement of cash flows

For the year ended 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	*2024*	*2023*
Cash flows from operating activities			
Interest received		907,460	735,358
Interest paid		(203,163)	(100,660)
Fees and commissions received		430,887	306,222
Fees and commissions paid		(273,448)	(175,768)
Net realized gains from foreign currency operations		57,633	65,862
Other operating income received		21,140	11,711
Personnel expenses paid		(252,243)	(193,069)
General and administrative expenses paid		(184,534)	(152,152)
Recoveries of loans to customers previously written off		17,318	16,299
Cash flows from operating activities before changes in operating assets and liabilities		**521,050**	**513,803**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(255,810)	(898,663)
Loans to customers		(959,142)	(1,108,970)
Other assets		163,345	(243,203)
Net increase/(decrease) in operating liabilities			
Amounts due to customers		2,557,631	278,349
Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations		77,210	32,881
Amounts due to credit institutions		(429,889)	463,198
Other liabilities		108,095	14,881
Net cash flows from / (used in) operating activities before income tax		**1,782,490**	**(947,724)**
Income tax paid		(94,807)	(129,462)
Net cash from / (used in) operating activities		**1,687,683**	**(1,077,186)**
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	1,914,249
Investment in subsidiary		(73,950)	(31,730)
Net gains on sale of investment securities		1,738	–
Purchase of property and equipment		(66,496)	(29,258)
Proceeds from sale of property and equipment		689	446
Purchase of intangible assets		(24,728)	(14,645)
Net cash flows used in / (from) investing activities		**(1,544,379)**	**849,368**
Cash flows used in financing activities			
Lease liability paid	12	(9,215)	(8,374)
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	20	(176,112)	(171,100)
Net cash flows from / (used in) financing activities		**118,673**	**(187,974)**
Effect of exchange rates changes on cash and cash equivalents		(2,569)	3,740
Net increase/(decrease) in cash and cash equivalents		**259,408**	**(412,052)**
Cash and cash equivalents, opening balance		1,149,545	1,561,597
Cash and cash equivalents, closing balance	6	**1,408,953**	**1,149,545**

The accompanying notes on pages 6 to 70 are an integral part of these separate 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 it's 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).

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

The Azerbaijani manat is the functional and presentation currency of the Bank as the majority of the transactions are denominated, measured, or funded in Azerbaijani manat. Transactions in other currencies are treated as transactions in foreign currencies. The Bank maintains its records and prepares its separate financial statements in Azerbaijani manat and in accordance with IFRS. These separate financial statements are presented in thousands of Azerbaijani manat ("AZN"), except per share amounts and unless otherwise indicated. These separate 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 Bank 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 separate financial statements at 31 December 2024.

Fair value measurement

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

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

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

Financial assets and liabilities

Initial 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.

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

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

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

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the 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 Bank's assessment.

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

The SPPI test

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

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

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies 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.

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Debt instruments at FVOCI

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value 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 separate 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 Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

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

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 27.

Financial guarantees, letters of credit and undrawn loan commitments

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

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

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

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

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Performance guarantees

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

Reclassification of financial assets and liabilities

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the 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 Bank 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 separate 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 contacts 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 separate statement of profit or loss.

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

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 separate 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 separate statement of financial position. Securities borrowed are not recorded in the separate 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 separate statement of profit or loss. The obligation to return them is recorded at fair value as a trading liability.

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to 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 Bank purchases its own debt, it is removed from the separate 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 Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

Renegotiated loans

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

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Renegotiated loans (continued)

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

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

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, presented within interest income calculated using EIR in the separate 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 Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Taxation

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

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

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

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

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

Property and equipment

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.

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

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

Retirement and other employee benefit obligations

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

Segment reporting

The Bank`s segmental reporting is based on the following operating segments: Corporate, Retail, and Treasury.

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Contingencies

Contingent liabilities are not recognised in the separate 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 separate statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

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

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

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest 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 Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Income earned from the provision of service is recognized 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 Bank offers a number customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Bank acts as an agent or as a principal under the contract. For point-based programs, the Bank 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 Bank’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 separate statement of profit or loss.

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(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Foreign currency translation

The separate financial statements are presented in Azerbaijani manat, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the separate 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 Bank used the following official exchange rates at 31 December in the preparation of these financial statements:

	2024	***2023***
1 US dollar	AZN 1.7000	AZN 1.7000
1 euro	AZN 1.7724	AZN 1.8766

4. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the separate 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 separate 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 27.

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 Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

- The Bank's criteria for assessing 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.

(Amounts presented are in thousands of Azerbaijani manats)

4. Significant accounting judgments and estimates (continued)

More details are provided in Notes 9 and Note 27.

Leases − estimating the incremental borrowing rate

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

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

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 Bank's tax position will be sustained.

(Amounts presented are in thousands of Azerbaijani manats)

5. Segment reporting

The Bank discloses information to enable users of its separate 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 Bank'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.

(Amounts presented are in thousands of Azerbaijani manats)

5. Segment reporting (continued)

	Corporate		*Retail*		*Treasury*		*Unallocated*		*Total*	
	2024	*2023*	*2024*	*2023*	*2024*	*2023*	*2024*	*2023*	*2024*	*2023*
Interest income	98,742	96,596	673,732	487,319	123,186	137,366	–	–	**895,660**	**721,281**
Interest expense	(116,654)	(53,756)	(75,816)	(39,606)	(36,861)	(15,075)	(3,331)	(1,565)	**(232,662)**	**(110,002)**
Net interest income	**(17,912)**	**42,840**	**597,916**	**447,713**	**86,325**	**122,291**	**(3,331)**	**(1,565)**	**662,998**	**611,279**
Credit loss (expense) / reversal	(4,768)	(2,531)	(54,291)	(14,002)	2,841	(174)	21	(477)	**(56,197)**	**(17,184)**
Net interest income after provision for impairment losses	**(22,680)**	**40,309**	**543,625**	**433,711**	**89,166**	**122,117**	**(3,310)**	**(2,042)**	**606,801**	**594,095**
Fee and commission income	125,781	104,346	316,203	201,886	1,955	1,335	–	–	**443,939**	**307,567**
Fee and commission expense	(3,169)	(4,904)	(245,275)	(162,985)	(25,004)	(7,879)	–	–	**(273,448)**	**(175,768)**
Net gains from operations in foreign currencies	35,039	27,247	16,905	23,652	487	4,855	–	–	**52,431**	**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)**
Other operating income	–	–	–	–	–	–	21,879	12,157	**21,879**	**12,157**
Non−interest income	**157,651**	**126,689**	**79,991**	**61,985**	**(20,824)**	**(1,956)**	**21,879**	**12,157**	**238,697**	**198,875**
Operating expenses	(36,687)	(31,005)	(153,228)	(139,073)	(832)	(857)	(305,578)	(233,454)	**(496,325)**	**(404,389)**
Non−interest expense	**(36,687)**	**(31,005)**	**(153,228)**	**(139,073)**	**(832)**	**(857)**	**(305,578)**	**(233,454)**	**(496,325)**	**(404,389)**
Profit/(loss) before income tax expense	**98,284**	**135,993**	**470,388**	**356,623**	**67,510**	**119,304**	**(287,009)**	**(223,339)**	**349,173**	**388,581**
Income tax (expense)/benefit	(11,411)	(17,673)	(54,612)	(51,241)	(7,837)	(15,503)	–	–	**(73,860)**	**(84,417)**
Net profit/(loss) for the year	**86,873**	**118,320**	**415,776**	**305,382**	**59,673**	**103,801**	**(287,009)**	**(223,339)**	**275,313**	**304,164**
Segment assets	**1,093,932**	**1,253,255**	**4,111,264**	**3,190,542**	**6,086,145**	**4,214,754**	**262,153**	**135,768**	**11,553,494**	**8,794,319**
Segment liabilities	**6,947,595**	**4,888,108**	**2,845,559**	**2,150,680**	**436,341**	**549,078**	**103,238**	**85,373**	**10,332,733**	**7,673,239**

The amount of revenues from entities that are under common control with the Bank is disclosed in Note 29 "Related party disclosures".

The geographic information comprises:

	Azerbaijan Republic		**OECD countries**		**Non-OECD countries**		**Total**	
	2024	*2023*	*2024*	*2023*	*2024*	*2023*	*2024*	*2023*
Revenue	1,391,729	1,079,719	23,563	15,780	355	1,260	**1,415,647**	**1,096,759**
Non-current assets	248,182	139,187	–	–	–	–	**248,182**	**139,187**

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, and intangible assets.

(Amounts presented are in thousands of Azerbaijani manats)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2024	*2023*
Cash on hand	988,440	769,567
Current accounts with the CBAR	125,949	104,364
Current accounts with other credit institutions	133,889	129,422
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	29	–
Cash and cash equivalents	**1,408,953**	**1,149,545**

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 7,892 (2023: AZN 6,741) and AZN 125,997 (2023: AZN 122,681), respectively.

Cash equivalents in amount of AZN 402,019 (2023: AZN 371,847) are allocated to Stage 1 and cash equivalents in amount of AZN 18,465 (2023: AZN 8,131) are allocated to Stage 2. The ECL relating to cash equivalents of the Bank rounds to zero in both years.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2024	*2023*
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	11,641	7,102
Other amounts from credit institutions	1,583	15,243
Amounts due from credit institutions	**1,544,786**	**1,289,482**

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 non-resident bank (2023: one resident bank) in the amount of AZN 11,641 (2023: AZN 7,102).

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)

7. 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 1,542,878 allocated to Stage 1 (2023: all amounts are allocated to Stage 1). The ECL relating to Amounts due from credit institutions of the Bank rounds to zero in both years.

8. Investment securities

Investment securities comprise:

	2024	***2023***
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)
	2,735,005	**1,277,704**
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	–
	226,091	**304,938**
Equity securities at FVOCI		
Corporate shares	15,305	13,055
	15,305	**13,055**
Investment securities	**2,976,401**	**1,595,697**

In 2024, the Bank made gain in amount of AZN 1,738 (2023: The Bank 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	**2,738,413**	**–**	**312**	**2,738,725**

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	**(3,408)**	**–**	**(312)**	**(3,720)**

(Amounts presented are in thousands of Azerbaijani manats)

8. 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)

9. Loans to customers

Loans to customers comprise:

	2024	*2023*
Government related entities	412,984	378,153
Corporate loans	682,878	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	**4,497,968**	**3,883,448**
Less: allowance for loan impairment	(171,844)	(137,507)
Loans to customers at amortised cost	**4,326,124**	**3,745,941**
Loans to individuals − consumer loans	670,721	364,560
Loans to customers at FVTPL	**670,721**	**364,560**
Loans to customers	**4,996,845**	**4,110,501**

Loans are extended to the following types of customers:

	2024	*2023*
Individuals	3,502,730	2,893,592
Private entities	682,878	605,542
Government related entities	412,984	378,153
Individual entrepreneurs	570,097	370,721
Loans to customers, gross	**5,168,689**	**4,248,008**

Loans are made principally in the following industry sectors:

	2024	*2023*
Individuals	3,502,730	2,893,592
Trade and services	1,069,838	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	**5,168,689**	**4,248,008**

As at 31 December 2024, the Bank 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 Bank. An allowance of AZN 2,092 (2023: AZN 1,440) was recognized against these loans.

(Amounts presented are in thousands of Azerbaijani manats)

9. 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)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
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)

9. 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)	(25,239)	(4,941)	**(373,173)**
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**	**85,536**	**15,778**	**682,878**

Corporate loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2024	**(10,206)**	**(1,337)**	**(5,569)**	**(17,112)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
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**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
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)

9. 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)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
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**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
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)

9. 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:

Loans to individuals – mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
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**

Loans to individuals – mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2024	**(735)**	**(285)**	**(191)**	**(1,211)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
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	**–**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
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)

9. 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:

Individual entrepreneurs	*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**

Individual entrepreneurs	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2024	**(12,147)**	**(1,233)**	**(3,533)**	**(16,913)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
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**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss	–	–		
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)

9. 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				
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
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)**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
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)

9. 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:

Corporate loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
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**

Corporate loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2023	**(7,848)**	**(4,053)**	**(5,218)**	**(17,119)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
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)**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
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)

9. 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)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
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**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
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)

9. 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:

Loans to individuals – mortgage loans	***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**

Loans to individuals – mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**(461)**	**(469)**	**(245)**	**(1,175)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
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**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
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)

9. 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:

Individual entrepreneurs	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
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**

Individual entrepreneurs	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**(6,239)**	**(1,841)**	**(3,303)**	**(11,383)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
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**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
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)

9. Loans to customers (continued)

Modified and restructured loans

The Bank 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 Bank did not have any Stage 3 originated loan, however has one POCI instrument with the balance rounds to zero. In 2024, the Bank 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 Bank 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 Bank.

	2024	***2023***
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 Bank calculates LGD rate of several corporate and small lending loans in Stage 3 using discounted value of collaterals. As at 31 December 2024, maximum exposure of such loans amounted to AZN 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)

10. Property and equipment

The movements in property and equipment were as follows:

	Premises	*Leasehold improvements*	*Computers and other office equipment*	*Furniture, fixtures, vehicles and others*	*Total*
Cost or revaluation					
1 January 2023	**6,291**	**23,117**	**19,964**	**110,105**	**159,477**
Additions	–	7,394	6,636	14,160	**28,190**
Disposals	–	–	(866)	(4,187)	**(5,053)**
Effect of revaluation	102	–	–	–	**102**
31 December 2023	**6,393**	**30,511**	**25,734**	**120,078**	**182,716**
Additions	–	43,852	4,438	21,318	**69,608**
Disposals	–	(274)	(1,153)	(7,031)	**(8,458)**
Effect of revaluation	96	–	–	–	**96**
31 December 2024	**6,489**	**74,089**	**29,019**	**134,365**	**243,962**
Accumulated depreciation and impairment					
1 January 2023	**–**	**(6,491)**	**(11,217)**	**(69,125)**	**(86,833)**
Depreciation charge	(314)	(2,701)	(3,296)	(14,242)	**(20,553)**
Disposals	–	–	763	3,929	**4,692**
Effect of revaluation	314	–	–	–	**314**
31 December 2023	**–**	**(9,192)**	**(13,750)**	**(79,438)**	**(102,380)**
Depreciation charge	(319)	(6,247)	(4,049)	(16,221)	**(26,836)**
Disposals	–	248	795	7,003	**8,046**
Effect of revaluation	319	–	–	–	**319**
31 December 2024	**–**	**(15,191)**	**(17,004)**	**(88,656)**	**(120,851)**
Net book value					
31 December 2022	**6,291**	**16,626**	**8,747**	**40,980**	**72,644**
31 December 2023	**6,393**	**21,319**	**11,984**	**40,640**	**80,336**
31 December 2024	**6,489**	**58,898**	**12,015**	**45,709**	**123,111**

As at 31 December 2024, property and equipment amounting to AZN 55,028 (2023: AZN 50,957) 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 Bank 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)

11. Intangible assets

The movements in intangible assets were as follows:

	License	*Computer software*	*Total*
Cost			
1 January 2023	**21,267**	**23,623**	**44,890**
Additions	10,510	4,727	**15,237**
Disposals	(5,616)	(118)	**(5,734)**
31 December 2023	**26,161**	**28,232**	**54,393**
Additions	20,964	3,680	**24,644**
Disposals	(6,886)	(254)	**(7,140)**
31 December 2024	**40,239**	**31,658**	**71,897**
Accumulated amortization			
1 January 2023	**(9,300)**	**(9,390)**	**(18,690)**
Amortisation charge	(8,782)	(3,068)	**(11,850)**
Disposals	5,616	118	**5,734**
31 December 2023	**(12,466)**	**(12,340)**	**(24,806)**
Amortisation charge	(15,980)	(3,216)	**(19,196)**
Disposals	6,886	254	**7,140**
31 December 2024	**(21,560)**	**(15,302)**	**(36,862)**
Net book value			
31 December 2022	**11,967**	**14,233**	**26,200**
31 December 2023	**13,695**	**15,892**	**29,587**
31 December 2024	**18,679**	**16,356**	**35,035**

12. Right of use assets and lease liability

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

	2024	*2023*
As at 1 January	**29,264**	**35,032**
Additions	73,819	901
Lease modification	2,744	2,809
Depreciation expense	(15,791)	(9,478)
As at 31 December	**90,036**	**29,264**

The movements in lease liability were as follows:

	2024	*2023*
As at 1 January	**36,066**	**41,031**
Additions	41,434	901
Lease modifications	2,393	2,508
Interest expense	7,238	4,507
Payments	(16,453)	(12,881)
As at 31 December	**70,678**	**36,066**

(Amounts presented are in thousands of Azerbaijani manats)

13. Taxation

The corporate income tax expense comprises:

	2024	*2023*
Current tax charge	(67,602)	(101,003)
Deferred (charge) / benefit − origination of temporary differences	(6,378)	16,085
Less: deferred tax recognised in other comprehensive income	120	501
Income tax expense	**(73,860)**	**(84,417)**

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

	2024	*2023*
Net (gain) / loss on debt instruments designated at fair value through OCI	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:

	2024	*2023*
Profit before income tax expense	**349,173**	**388,581**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**(69,835)**	**(77,716)**
Tax effect of items which are not deductible or assessable for taxation purposes		
Non-deductible expenses	(4,001)	(6,528)
Other	(24)	(173)
Income tax expense	**(73,860)**	**(84,417)**

(Amounts presented are in thousands of Azerbaijani manats)

13. Taxation (continued)

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2022	*In the statement of profit or loss*	*In other comprehensive income*	*2023*	*In the statement of profit or loss*	*In other comprehensive income*	*2024*
Tax effect of deductible temporary differences							
Investment securities	252	225	(418)	**59**	161	(36)	**184**
Amounts due from credit institutions	583	(449)	–	**134**	210	–	**344**
Provision for credit related commitments and other impairment	(338)	754	–	**416**	1,154	–	**1,570**
Lease liability	8,886	(1,673)	–	**7,213**	6,922	–	**14,135**
Other assets	(3,422)	3,713	–	**291**	12,661	–	**12,952**
Other liabilities	8,767	5,272	–	**14,039**	1,513	–	**15,552**
Deferred tax assets	**14,728**	**7,842**	**(418)**	**22,152**	**22,621**	**(36)**	**44,737**
Intangible assets	(228)	(70)	–	**(298)**	(539)	–	**(837)**
Amounts due to customers	676	(676)	–	**–**	(510)	–	**(510)**
Right of use assets	(7,611)	1,758	–	**(5,853)**	(12,154)	–	**(18,007)**
Loans to customers	(43,215)	6,568	–	**(36,647)**	(9,252)	–	**(45,899)**
Property and equipment	(3,238)	761	(83)	**(2,560)**	(6,424)	(84)	**(9,068)**
Deferred tax liabilities	**(53,616)**	**8,341**	**(83)**	**(45,358)**	**(28,879)**	**(84)**	**(74,321)**
Net deferred income tax (liabilities)/asset	**(38,888)**	**16,183**	**(501)**	**(23,206)**	**(6,258)**	**(120)**	**(29,584)**

(Amounts presented are in thousands of Azerbaijani manats)

14. Credit loss expense and other impairment and provisions

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

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Investment securities	8	462	–	2,379	**2,841**
Loans to customers at amortised cost	9	(861)	(19,828)	(38,371)	**(59,060)**
Other financial assets	15	14	(44)	52	**22**
Credit loss on financial assets		**(385)**	**(19,872)**	**(35,940)**	**(56,197)**
Financial guarantees	21	(892)	(1,400)	(14)	**(2,306)**
Undrawn Loan Commitment	21	(665)	(1,483)	(11)	**(2,159)**
Letters of credit	21	(20)	–	–	**(20)**
Credit related commitments		**(1,577)**	**(2,883)**	**(25)**	**(4,485)**
Total credit loss expense		**(1,962)**	**(22,755)**	**(35,965)**	**(60,682)**

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

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Investment securities	8	(174)	–	–	**(174)**
Loans to customers at amortised cost	9	(9,538)	7,321	(14,315)	**(16,532)**
Other financial assets	15	(14)	(22)	(442)	**(478)**
Credit loss on financial assets		**(9,726)**	**7,299**	**(14,757)**	**(17,184)**
Financial guarantees	21	(160)	87	47	**(26)**
Letters of credit	21	(1,740)	(77)	1,294	**(523)**
Undrawn loan commitments	21	20	1	–	**21**
Credit related commitments		**(1,880)**	**11**	**1,341**	**(528)**
Total credit loss expense		**(11,606)**	**7,310**	**(13,416)**	**(17,712)**

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)

15. Other assets and liabilities

Other assets comprise:

	2024	*2023*
Other financial assets		
Funds in settlement	172,439	249,114
Receivable from local budget	18,504	12,495
Accrued commission	4,039	3,580
Receivables from Azerbaijan Deposit Insurance Fund	377	111,594
Derivative financial assets	83	5,346
Less: allowance for impairment of other assets	(4,485)	(4,507)
Total other financial assets	**190,957**	**377,622**
Other non-financial assets		
Prepaid rent and other deferred expenses	17,204	51,030
Prepayments	13,608	7,915
Repossessed collateral	10,227	10,048
Spare parts	379	202
Total other non-financial assets	**41,418**	**69,195**
Other assets	**232,375**	**446,817**

The Bank`s receivable from Azerbaijan Deposit Insurance Fund (hereinafter “ADIF”) are associated with the discontinuation of resident bank in 2023. Following resident banks’ cessation, the Bank 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 Bank 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 Bank was required to make an upfront payment. Starting from January 2024 the Bank began making rent payments as floors rented were ready to use. Since this lease agreement falls within the scope of IFRS 16, the Bank 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	**(17)**	**(58)**	**(4,432)**	**(4,507)**
Reversal / (charge) for the period	14	(44)	52	**22**
As at 31 December 2024	**(3)**	**(102)**	**(4,380)**	**(4,485)**

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	**(3)**	**(36)**	**(3,990)**	**(4,029)**
Charge for the period	(14)	(22)	(442)	**(478)**
As at 31 December 2023	**(17)**	**(58)**	**(4,432)**	**(4,507)**

(Amounts presented are in thousands of Azerbaijani manats)

15. Other assets and liabilities (continued)

Other liabilities comprise:

	2024	*2023*
Other financial liabilities		
Funds in settlement	80,911	28,391
Accrued expenses	21,754	14,431
Provision for financial guarantees and other credit related commitments	15,579	11,094
Total other financial liabilities	**118,244**	**53,916**
Other non-financial liabilities		
Payables to employees	50,016	52,694
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	6,040	4,012
Provision for performance guarantees	2,293	2,170
Total other non-financial liabilities	**130,287**	**98,040**
Other liabilities	**248,531**	**151,956**

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

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

16. Amounts due to customers

Amounts due to customers comprise:

	2024	*2023*
Legal entities		
Current accounts	5,061,360	3,540,110
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	**9,051,456**	**6,464,415**
Held as security against guarantees and letters of credit (Note 21)	(45,000)	(26,694)

At 31 December 2024, the Bank 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)

16. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

	2024		2023	
	Amount	***%***	***Amount***	***%***
Individuals	2,669,958	29%	2,056,486	32%
Trade and services	1,716,641	19%	1,511,726	23%
Energy	1,684,964	19%	647,072	10%
Construction	1,192,944	13%	1,119,723	17%
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	**9,051,456**	**100%**	**6,464,415**	**100%**

17. 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 Bank 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 Bank is not obliged to comply with any financial or non-financial covenants in relation to these debt securities. During the 2024 the Bank purchased back AZN 42,500 of bonds issued in 2022 year.

18. 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)

18. 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.

19. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2024	*2023*
Time deposits from financial institutions	29,427	18,384
Current accounts	21,922	19,986
Long-term loans received from credit institutions	–	40,366
Repurchase agreements	–	403,760
Other amounts owed to credit institutions	1,186	–
Amounts due to credit institutions	**52,535**	**482,496**

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).

20. Equity

As at 31 December 2024 and 2023, the Bank'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 Bank 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 Bank 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)

20. 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.

21. Commitments and contingencies

Operating environment

General overview

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

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

Economic performance

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

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)

21. Commitments and contingencies (continued)

Operating environment (continued)

Management response

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

Legal

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

Taxation

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

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

Insurance

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

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

(Amounts presented are in thousands of Azerbaijani manats)

21. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

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

	2024	*2023*
Undrawn loan commitments	2,445,559	1,467,747
Financial guarantees	1,053,784	811,132
Letters of credit	9,880	21,071
Less: provisions for ECL for credit related commitments (Note 14)	(15,579)	(11,094)
Credit related commitments	**3,493,644**	**2,288,856**
Performance guarantees	614,667	312,864
Less: provisions for performance guarantees (Note 14)	(2,293)	(2,170)
Commitments and contingencies (before deducting collateral)	**4,106,018**	**2,599,550**
Less: cash held as security against guarantees and letters of credit (Note 16)	(45,000)	(26,694)
Commitments and contingencies	**4,061,018**	**2,572,856**

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

Financial guarantees	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
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	**(1,763)**	**(1,666)**	**(14)**	**(3,443)**

Undrawn loan commitments	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
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	**(7,661)**	**(4,385)**	**(11)**	**(12,057)**

(Amounts presented are in thousands of Azerbaijani manats)

21. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

Letters of credit	*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:

Financial guarantees	*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)**

Undrawn loan commitments	*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)**

Letters of credit	*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)

22. Net fee and commission income

Net fee and commission income comprises:

	2024	*2023*
Servicing plastic card operations	295,522	206,211
Settlement operations	44,851	34,861
Cash operations	60,170	35,440
Guarantees and commitments	31,629	18,921
Other	11,767	12,134
Fee and commission income	**443,939**	**307,567**
Servicing plastic card operations	(185,422)	(124,241)
Settlement operations	(45,900)	(35,214)
Cash operations	(20,579)	(4,718)
Guarantees and commitments	(598)	(942)
Other	(20,949)	(10,653)
Fee and commission expense	**(273,448)**	**(175,768)**
Net fee and commission income	**170,491**	**131,799**

23. Other operating income

As at 31 December 2024, other operating income of AZN 21,879 (2023: AZN 12,157) primarily comprise income from early withdrawal fee, annual subscription fee for banking packages and other individually insignificant items.

24. Personnel expenses

Personnel expenses comprise:

	2024	*2023*
Salaries and bonuses	(206,322)	(169,025)
Social security costs	(36,951)	(30,509)
Other employee related expenses	(6,106)	(4,682)
Personnel expenses	**(249,379)**	**(204,216)**

25. General and administrative expenses

General and administrative expenses comprise:

	2024	*2023*
Repair and maintenance of property and equipment	(43,640)	(27,958)
Sponsorship	(21,082)	(20,081)
Communications	(20,288)	(23,451)
Marketing and advertising	(16,089)	(14,879)
Deposit Insurance Fund expenses	(15,438)	(12,493)
Legal and consultancy	(13,664)	(13,164)
Blank plastic cards	(9,801)	(14,857)
Security	(5,951)	(5,652)
Representation expenses	(5,339)	(5,791)
Occupancy and rent	(4,925)	(2,959)
Membership Fees	(4,543)	(2,581)
Office supplies	(4,244)	(4,217)
Utilities	(1,994)	(1,898)
Business travel and related expenses	(1,915)	(1,881)
Insurance on properties and equipment	(1,581)	(1,594)
Taxes other than income tax	(1,148)	(1,668)
Transportation and vehicle maintenance	(834)	(743)
Other	(8,039)	(1,806)
General and administrative expenses	**(180,515)**	**(157,673)**

(Amounts presented are in thousands of Azerbaijani manats)

25. General and administrative expenses (continued)

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

26. Risk management

Introduction

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

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

Risk management structure

The 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 Bank.

Risk Committee

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

Risk Management

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

Bank Treasury

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

Internal Audit

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

Risk measurement and reporting systems

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

(Amounts presented are in thousands of Azerbaijani manats)

26. Risk management (continued)

Introduction (continued)

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. 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 Bank.

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

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

Risk mitigation

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

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

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

Credit risk

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

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

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 separate statement of financial position.

Credit-related commitments risks

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

The maximum exposure to credit risk for the components of the separate 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.

(Amounts presented are in thousands of Azerbaijani manats)

26. Risk management (continued)

Credit risk (continued)

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 9.

Impairment assessment

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

PD	The *Probability of Default* 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 *Exposure at Default* 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 *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

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

Stage 1:	When loans are first recognized, the Bank recognizes an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Bank records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently 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 Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

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

(Amounts presented are in thousands of Azerbaijani manats)

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

Internal rating and PD estimation process

The Bank's Credit Risk Office operates its internal rating models. The Bank 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)

26. Risk management (continued)

Credit risk (continued)

The Bank 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 Bank, 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 Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank analyses publicly available information such as financial information and other external data, e.g., the external ratings, 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 Bank. 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 Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank'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 Bank 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 Bank, 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 Bank 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 Bank has determined that it is impracticable to estimate the effect of the changes in future periods. The Bank 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)

26. 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 Bank’s internal credit rating grades are as follows:

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

Loss given default

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

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

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

The Bank 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 Bank'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 Bank has determined that it is impracticable to estimate the effect of the changes in future periods. The Bank 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 Bank.

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)

26. Risk management (continued)

Credit risk (continued)

Significant increase in credit risk

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

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

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

Banking financial assets measured on a collective basis

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

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

- 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 Bank 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 Bank 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 Bank 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 Bank'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)

26. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

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

31 December 2024	***Note***		***High grade***	***Standard grade***	***Sub-standard grade***	***Impaired***	***Total***
Cash and cash equivalents, except for cash on hand and in transit	6	Stage 1	82,850	317,815	1,354	−	**402,019**
		Stage 2	−	−	18,465	−	**18,465**
Amounts due from credit institutions	7	Stage 1	1,235,174	307,704	−	−	**1,542,878**
		Stage 2	−	−	1,908	−	**1,908**
Loans to customers at amortised cost	9						
- Government related entities		Stage 1	−	389,423	1,883	−	**391,306**
		Stage 2	−	−	21,549	−	**21,549**
		Stage 3	−	−	−	129	**129**
- Corporate loans		Stage 1	−	541,316	40,248	−	**581,564**
		Stage 2	−	33,050	52,486	−	**85,536**
		Stage 3	−	−	−	15,778	**15,778**
- Loans to individuals − consumer loans		Stage 1	−	1,987,650	11,984	−	**1,999,634**
		Stage 2	−	69,604	70,402	−	**140,006**
		Stage 3	−	−	−	83,062	**83,062**
- Loans to individuals − mortgage loans		Stage 1	−	581,348	−	−	**581,348**
		Stage 2	−	18,843	7,340	−	**26,183**
		Stage 3	−	−	−	1,776	**1,776**
- Loans to individual entrepreneurs		Stage 1	−	539,347	1,648	−	**540,995**
		Stage 2	−	6,288	9,709	−	**15,997**
		Stage 3	−	−	−	13,105	**13,105**
Debt securities at amortised cost	8	Stage 1	798,907	1,939,506	−	−	**2,738,413**
		Stage 3	−	−	−	312	**312**
Debt securities at FVOCI	8	Stage 1	226,091	−	−	−	**226,091**
Financial guarantees	21	Stage 1	−	803,829	64,846	−	**868,675**
		Stage 2	−	48,098	136,987	−	**185,085**
		Stage 3	−	−	−	24	**24**
Undrawn loan commitments	21	Stage 1	−	1,864,229	457,579	−	**2,321,808**
		Stage 2	−	50,533	68,156	−	**118,689**
		Stage 3	−	−	−	5,062	**5,062**
Letters of credit	21	Stage 1	−	8,893	987	−	**9,880**
Total			**2,343,022**	**9,507,476**	**967,531**	**119,248**	**12,937,277**

(Amounts presented are in thousands of Azerbaijani manats)

26. 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	6	Stage 1	268,513	103,334	−	−	**371,847**
		Stage 2	−	−	8,131	−	**8,131**
Amounts due from credit institutions	7	Stage 1	1,112,293	177,189	−	−	**1,289,482**
Loans to customers at amortised cost	9						
- Government related entities		Stage 1	−	378,094	−	−	**378,094**
		Stage 3	−	−	−	59	**59**
- Corporate loans		Stage 1	−	511,044	48,736	−	**559,780**
		Stage 2	−	10,046	27,391	−	**37,437**
		Stage 3	−	−	−	8,325	**8,325**
- Loans to individuals − consumer loans		Stage 1	−	1,798,833	4,223	−	**1,803,056**
		Stage 2	−	51,042	39,594	−	**90,636**
		Stage 3	−	−	−	64,139	**64,139**
- Loans to individuals − mortgage loans		Stage 1	−	543,797	−	−	**543,797**
		Stage 2	−	25,767	749	−	**26,516**
		Stage 3	−	−	−	888	**888**
- Loans to individual entrepreneurs		Stage 1	−	354,633	1,424	−	**356,057**
		Stage 2	−	4,824	4,185	−	**9,009**
		Stage 3	−	−	−	5,655	**5,655**
Debt securities at amortised cost	8	Stage 1	804,339	421,000	56,174	−	**1,281,513**
		Stage 3	−	−	−	2,691	**2,691**
Debt securities at FVOCI	8	Stage 1	304,938	−	−	−	**304,938**
Financial guarantees	21	Stage 1	−	694,512	84,875	−	**779,387**
		Stage 2	−	10,332	21,413	−	**31,745**
Undrawn loan commitments	21	Stage 1	−	1,389,419	21,585	−	**1,411,004**
		Stage 2	−	38,163	17,166	−	**55,329**
		Stage 3	−	−	−	1,414	**1,414**
Letters of credit	21	Stage 1	−	11,797	−	−	**11,797**
		Stage 2	−	−	9,274	−	**9,274**
Total			**2,490,083**	**6,523,826**	**344,920**	**83,171**	**9,442,000**

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
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(Amounts presented are in thousands of Azerbaijani manats)

26. Risk management (continued)

Credit risk (continued)

The geographical concentration of the Bank'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	1,282,956	101,035	24,962	**1,408,953**	916,318	200,017	33,210	**1,149,545**
Amounts due from credit institutions	1,497,611	39,489	7,686	**1,544,786**	1,245,293	16,303	27,886	**1,289,482**
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	4,996,845	–	–	**4,996,845**	4,109,783	–	718	**4,110,501**
Other financial assets	170,467	17,546	2,944	**190,957**	353,920	20,033	3,669	**377,622**
	9,964,715	**1,111,919**	**41,308**	**11,117,942**	**8,031,373**	**418,681**	**72,793**	**8,522,847**
Liabilities								
Amounts due to customers	8,971,539	14,644	65,273	**9,051,456**	6,424,501	10,134	29,780	**6,464,415**
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	42,766	13	9,756	**52,535**	473,529	13	8,954	**482,496**
Other financial liabilities	118,030	135	79	**118,244**	53,802	71	43	**53,916**
	10,012,284	**14,792**	**75,108**	**10,102,184**	**7,448,314**	**10,218**	**38,777**	**7,497,309**
Net (liabilities)/assets	**(47,569)**	**1,097,127**	**(33,800)**	**1,015,758**	**583,059**	**408,463**	**34,016**	**1,025,538**

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)

26. 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 Bank'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 Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

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	52,546	116	–	–	**52,662**
Amounts due to customers	6,503,806	69,535	2,717,529	21,597	**9,312,467**
Debt Securities issued	9,432	115,887	88,043	273,204	**486,566**
Lease liability	3,586	10,608	30,742	62,277	**107,213**
Other financial liabilities	118,244	–	–	–	**118,244**
Total undiscounted financial liabilities	**6,759,685**	**232,035**	**2,968,734**	**754,775**	**10,715,229**

As at 31 December 2023	*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	91,646	30,215	108,529	304,725	**535,115**
Amounts due to credit institutions	441,298	46,511	30	–	**487,839**
Amounts due to customers	5,111,929	1,134,942	293,648	7,582	**6,548,101**
Debt Securities issued	1,076	2,996	71,418	–	**75,490**
Lease liability	3,290	8,868	28,295	2,453	**42,906**
Other financial liabilities	53,916	–	–	–	**53,916**
Total undiscounted financial liabilities	**5,703,155**	**1,223,532**	**501,920**	**314,760**	**7,743,367**

The table below shows the contractual expiry by maturity of the Bank's credit related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down 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 Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. There is a significant concentration of 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 Bank. This level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

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

(Amounts presented are in thousands of Azerbaijani manats)

26. 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 Bank does not have any significant equity, corporate fixed income, or derivatives holdings.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of financial instruments. The sensitivity of current year profit is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2024. The Bank does not have 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 Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the CBAR.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Azerbaijani manats, with all other variables held constant on the separate 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:

	2024		***2023***	
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 Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

27. Fair value measurements

Fair value hierarchy

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

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

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(Amounts presented are in thousands of Azerbaijani manats)

27. Fair value measurements (continued)

Fair value hierarchy (continued)

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

		Fair value measurement using			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value					
Investment securities – debt securities at FVOCI	31 December 2024	–	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	–	–	6,489	**6,489**
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	–	–	1,544,786	**1,544,786**
Loans to customers measured at amortised cost	31 December 2024	–	681,028	3,623,147	**4,304,175**
Other financial assets (excluding derivative financial assets)	31 December 2024	–	–	190,874	**190,874**

		Fair value measurement using			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Liabilities for which fair values are disclosed					
Amounts due to customers	31 December 2024	–	6,480,207	2,563,637	**9,043,844**
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	–	23,108	29,427	**52,535**
Debt securities issued	31 December 2024	–	365,864	–	**365,864**
Other financial liabilities	31 December 2024	–	–	118,244	**118,244**

(Amounts presented are in thousands of Azerbaijani manats)

27. Fair value measurements (continued)

Fair value hierarchy (continued)

	Date of valuation	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value					
Investment securities – debt securities at FVOCI	31 December 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	–	–	6,393	**6,393**
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	–	–	1,289,482	**1,289,482**
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	–	–	372,276	**372,276**

	Date of valuation	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Liabilities for which fair values are disclosed					
Amounts due to customers	31 December 2023	–	4,933,928	1,525,610	**6,459,538**
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	–	423,746	58,750	**482,496**
Debt securities issued	31 December 2023	–	59,578	–	**59,578**
Other financial liabilities	31 December 2023	–	–	53,916	**53,916**

(Amounts presented are in thousands of Azerbaijani manats)

27. 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:

As at 31 December 2024	*At 1 January 2024*	*Purchase*	*Sales*	*Issuances*	*Settlements*	*Transfers*	*Transfer from Level 3*	*Net interest income, net trading income and other income*	*Other comprehensive income*	*Exchange rate differences*	*At 31 December 2024*	*Unrealised gains and losses related to balances held at the end of the period*
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**	**–**

As at 31 December 2023	*At 1 January 2023*	*Purchase*	*Sales*	*Issuances*	*Settlements*	*Transfers*	*Transfer from Level 3*	*Net interest income, net trading income and other income*	*Other comprehensive income*	*Exchange rate differences*	*At 31 December 2023*	*Unrealised gains and losses related to balances held at the end of the period*
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)

27. Fair value measurements (continued)

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

	31 December 2024 Fair value of				*31 December 2024 Range of Inputs*				
					Full range		*Core range*		
	Level 3 Assets	*Level 3 Liabilities*	*Valuation technique*	*Significant unobservable inputs*	*Low*	*High*	*Low*	*High*	*Unit*
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	%

	31 December 2024 Fair value of				*31 December 2024 Range of Inputs*				
					Full range		*Core range*		
	Level 3 Assets	*Level 3 Liabilities*	*Valuation technique*	*Significant unobservable inputs*	*Low*	*High*	*Low*	*High*	*Unit*
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)

27. 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***	
	Favourable changes	***Unfavourable changes***	***Favourable changes***	***Unfavourable changes***
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 Bank's financial instruments that are not carried at fair value in the separate 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)

27. Fair value measurements (continued)

Fair value hierarchy (continued)

	Carrying value 2024	*Fair value 2024*	*Unrealized gain/(loss)*	*Carrying value 2023*	*Fair value 2023*	*Unrealized gain/(loss)*
Financial assets						
Amounts due from credit institutions	1,544,786	1,544,786	–	1,289,482	1,289,482	–
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	4,326,124	4,304,175	**(21,949)**	3,745,941	3,765,591	**19,650**
Other financial assets (excluding derivative financial assets)	190,874	190,874	–	372,276	372,276	–
Financial liabilities						
Amounts due to customers	9,051,456	9,043,844	**7,612**	6,464,415	6,459,538	**4,877**
Amounts due to the CBAR and government organizations	514,085	514,085	–	436,904	436,794	**110**
Amounts due to credit institutions	52,535	52,535	–	482,496	482,496	–
Debt securities issued	365,864	365,864	–	59,578	59,578	–
Other financial liabilities	118,244	118,244	–	53,916	53,916	–
Total unrecognized change in unrealized fair value			**(34,372)**			**10,508**

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 separate 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)

27. 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.

28. 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 26 "Risk management" for the Bank'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	1,408,953	–	**1,408,953**	1,149,545	–	**1,149,545**
Amounts due from credit institutions	1,503,938	40,848	**1,544,786**	1,246,965	42,517	**1,289,482**
Investment securities	1,427,170	1,549,231	**2,976,401**	680,271	915,426	**1,595,697**
Loans to customers	1,844,078	3,152,767	**4,996,845**	1,590,665	2,519,836	**4,110,501**
Investment in subsidiary	–	137,040	**137,040**	–	63,090	**63,090**
Right-of-use assets	–	90,036	**90,036**	–	29,264	**29,264**
Property and equipment	–	123,111	**123,111**	–	80,336	**80,336**
Intangible assets	–	35,035	**35,035**	–	29,587	**29,587**
Current income tax asset	8,912	–	**8,912**	–	–	**–**
Other assets	215,171	17,204	**232,375**	395,787	51,030	**446,817**
Total	**6,408,222**	**5,145,272**	**11,553,494**	**5,063,233**	**3,731,086**	**8,794,319**
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	52,535	–	**52,535**	482,466	30	**482,496**
Amounts due to customers	6,487,352	2,564,104	**9,051,456**	6,200,194	264,221	**6,464,415**
Current tax liabilities	–	–	**–**	18,618	–	**18,618**
Deferred income tax liabilities	–	29,584	**29,584**	–	23,206	**23,206**
Lease liabilities	7,613	63,065	**70,678**	8,118	27,948	**36,066**
Debt securities issued	102,364	263,500	**365,864**	78	59,500	**59,578**
Other liabilities	248,531	–	**248,531**	151,956	–	**151,956**
Total	**7,000,850**	**3,331,883**	**10,332,733**	**6,974,446**	**698,793**	**7,673,239**
Net	**(592,628)**	**1,813,389**	**1,220,761**	**(1,911,213)**	**3,032,293**	**1,121,080**

(Amounts presented are in thousands of Azerbaijani manats)

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

Management believes that in spite of a substantial portion of amounts due to customers being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank indicates that these amounts provide a long-term and stable source of funding for the Bank. 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 Bank 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 Bank have a long established history as the Bank's customers. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

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.

29. Related party disclosures

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

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

(Amounts presented are in thousands of Azerbaijani manats)

29. 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 mana-gement personnel*	*Share-holders / ultimate owners*	*Entities under common control*	*Other related parties*	*Key mana-gement personnel*
Loans outstanding at 1 January, gross	–	**2,857**	**43,768**	**12,158**	–	**31,476**	**40,717**	**9,288**
Loans issued during the year	–	9,134	76,896	17,110	–	8,932	78,715	20,802
Loan repayments during the year	–	(7,983)	(66,482)	(21,630)	–	(37,362)	(75,712)	(17,946)
Other movements	–	8	76	(43)	–	(189)	48	14
Loans outstanding at 31 December, gross	**–**	**4,016**	**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	**–**	**4,016**	**53,981**	**7,555**	**–**	**2,843**	**43,435**	**12,107**
Due from Credit Institutions	–	4,133	–	–	–	29,451	–	–
Interest income due from Credit Institutions	–	553	–	–	–	905	–	–
Interest income on loans	–	7,070	5,082	735	–	11,332	4,117	941
Impairment reversal/(charge) for loans	–	14	56	11	–	227	(126)	187
Right-of-use asset	–	78,757	530	–	–	18,220	712	–
Depreciation of right-of-use assets	–	(9,886)	(182)	–	–	(4,480)	(182)	–
Other assets	21	69,819	35	–	21	198,884	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	109,051	11,777	6,899	10,433	159,748	5,508	7,983
Cash and cash equivalents	–	4,384	–	–	–	3,583	–	–
Investment Securities	–	2,035	–	–	–	20,942	–	–
Interest income on Investment securities	–	–	–	–	–	2,365	–	–
Lease liability	–	57,933	528	–	–	23,795	792	–
Interest expense on lease liability	–	(5,315)	(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	–	–	–	–	–	40,366	–	–
Other liabilities	15	46,575	–	–	63	11,252	–	–
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	(7)	(41,801)	(1,540)	–	(7)	(21,986)	(7,275)	–
Personnel expenses	–	(2,225)	–	–		(1,874)	–	–
Commission Income	7	24,866	564	41	57	29,803	525	21
Other operating income	3,078	–	–	–	–	–	–	–
Commission expense	–	(31,792)	(10,136)	–	(155)	(18,453)	(5,540)	–
Net gains/(loss) from foreign currencies: dealing	2	850	737	39	6	630	963	36
Letters of credit and guarantees issued	–	1,550	19,799	–	–	3,195	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)

29. 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 mana-gement personnel*	*Share-holders / ultimate owners*	*Entities under common control*	*Other related parties*	*Key mana-gement 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 mana-gement personnel*	*Share-holders / ultimate owners*	*Entities under common control*	*Other related parties*	*Key mana-gement 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**

30. 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.

(Amounts presented are in thousands of Azerbaijani manats)

30. Capital adequacy (continued)

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 Bank's capital adequacy ratios on this basis were as follows:

	2024	***2023***
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	**976,627**	**833,103**
Risk weighted assets	**7,350,436**	**6,360,351**
Capital adequacy ratio (Tier 1)	8.76%	9.17%
Capital adequacy ratio (Total Capital)	13.29%	13.10%

31. 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 Bank made additional investment in “Competo LLC” in amount of AZN 10,500.

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