# BANK MELLI IRAN BAKU BRANCH

The International Financial Reporting Standards

Financial Statements and Independent Auditors' Report

**For the Year Ended December 31, 2024**

## CONTENTS

**Bank Melli Iran Baku Branch**

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

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

In preparing the financial statements, management is responsible for:

- Appropriate selection and application of accounting policies;
- Presentation of information, including accounting policies, in a relevant, reliable, comparable and understandable manner;
- To provide additional disclosures when compliance with the specific requirements of IFRS is not sufficient to help users understand the effects of specific transactions, other events and conditions on the Bank's financial performance and financial results;
- the bank's ability to continue its operations on a going concern basis.

Management is also responsible for:

- Planning, implementing and maintaining a sound and effective internal control system within the Bank ;
- sufficient to disclose and explain the Bank's transactions and to disclose with accuracy its financial position at any time and to ensure that the Bank's financial statements comply with IFRS;
- Maintaining local accounting records in accordance with the legislation and accounting standards of the Republic of Azerbaijan;
- to take all possible measures to protect the assets of the Bank ; and
- Identifying and preventing fraud and other irregularities.

The Bank's financial statements for the year ended December 31, 2024 were approved for issue by management on March 19, 2025.

By the bank's management:

Asghar Najafimarganmaskan Khalil
Branch Manager

March 19, 2025
Baku, Republic of Azerbaijan

BANK MELLI IRAN BAKI FILIALI BAKU BRANCH BANK MELLI IRAN

Vugar Mirheydarov Mirfazil oglu
Chief Accountant

March 19, 2025
Baku, Republic of Azerbaijan

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## Independent Auditor's Report

To the Founders and Management of Bank Melli Iran Baku Branch:

### *Opinion*

We have audited the financial statements of Bank Melli Iran Baku Branch (the Bank), which comprise the statement of financial position as at 31 December 2024, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory information.

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

### Other issue

The Bank's financial statements for the year ended December 31, 2023 were audited by another auditor and an unqualified opinion was expressed on the report.

We have not audited the financial statements of the Bank for the year ended December 31, 2023, and accordingly, we do not express an opinion or any other form of assurance on those financial statements.

At the same time, we would like to note that the external auditor's opinion on the report based on IFRS may differ from the provisions in accordance with the requirements of the Central Bank of Azerbaijan.

### *Responsibility of management and those charged with governance for the financial statements*

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

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

Those charged with governance of the Bank are responsible for overseeing the process of preparing the Bank's financial statements.

### *Auditor's responsibility for the audit of financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements 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 detect all misstatements that exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, fraud, intentional misrepresentation, misrepresentation, or the override of internal control.

- We 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 system.
- We evaluate the appropriateness of accounting policies used by management and the reasonableness of accounting estimates and related disclosures.
- We 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 inappropriate, to modify our opinion. However, future events or conditions may cause the Bank to fail to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements fairly represent the underlying transactions and events.

***Significant uncertainty regarding going concern***

We would like to draw attention to the uncertainties regarding the Bank's ability to continue as a going concern, as described in the notes to the Bank's financial statements, in connection with the Bank's economic results arising from the temporary suspension of the Bank's main banking operations, which was imposed by the Central Bank of the Republic of Azerbaijan on the Bank from May 2023. The notes indicate that there is a significant uncertainty regarding the Bank's ability to continue as a going concern in the current circumstances. We have not modified our opinion in relation to these circumstances.

We are required to communicate, 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 the audit, to those charged with governance.

March 19, 2025

Baku, Republic of Azerbaijan

Azərbaycan Respublikası Məhdud Məsuliyyətli Cəmiyyəti REANDA AZƏRBAYCAN Limited Liability Company Azerbaijan Republic

Member firm of Reanda Int.

**Bank Melli Iran Baku Branch**

**FINANCIAL STATEMENT**
**UNTIL 31 DECEMBER 2024**
*(in Azerbaijani Manat)*

| | Notes | 12/31/2024 | 31/12/2023 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 38,829,210 | 46,216,965 |
| Loans and advances to customers | 8 | 1,399,080 | 5,090,546 |
| Property, plant and equipment | 10 | 2,964,933 | 3,054,032 |
| Intangible assets | 10 | 173,403 | 175,650 |
| Investment securities | | 32,161,398 | 35,114,539 |
| Tax asset | 11 | 41,400 | - |
| Funds to be received from banks and financial institutions | 9 | 43,831,257 | 32,658,500 |
| Other assets | 11 | 911,800 | 464,636 |
| **TOTAL ASSETS** | | **120,312,481** | **122,774,868** |
| **LIABILITIES AND CAPITAL** | | | |
| **Commitments** | | | |
| Debts to banks and other financial institutions | 11 | 16,751,036 | 19,241,347 |
| Customer accounts | | 35,595,612 | 44,027,262 |
| Deferred income tax liability | 18 | 548,845 | 522,114 |
| Current income tax liability | 18 | 1,888,408 | 68,012 |
| Subordinated debt | | 15,951,600 | 16,889,400 |
| Other obligations | 13 | - | 53,944 |
| Future income | | 50,560 | - |
| **Total liabilities** | | **70,786,061** | **80,802,079** |
| **Capital** | | | |
| Share capital | 13 | 73,611,171 | 73,611,171 |
| Accumulated deficit | 18 | (24,084,751) | (31,638,382) |
| **Total capital** | | **49,526,420** | **41,972,789** |
| **TOTAL LIABILITIES AND CAPITAL** | | **120,312,481** | **122,774,868** |

**On behalf of the management:**

Asghar Najafimarganmaskan Khalil
Branch manager

March 19, 2025
Baku, Republic of Azerbaijan

Vugar Mirheydarov Mirfazil
Chief Accountant

March 19, 2025
Baku, Republic of Azerbaijan

BANK MELLI IRAN BAKI FILIALI BAKU BRANCH BANK MELLI IRAN

The notes on pages 8-40 form an integral part of these financial statements .

**Bank Melli Iran Baku Branch**

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

*(in Azerbaijani Manat)*

| | Notes | For the year ending December 31, 2024 | For the year ended December 31, 2023 |
|---|---|---|---|
| Accrued interest income | 14 | 5,583,002 | 3,170,645 |
| Interest expenses | 14 | (286) | (40,148) |
| **Net interest income** | | **5,582,716** | **3,130,497** |
| Provision for impairment losses | 8 | 6,171,146 | 3,138,891 |
| **Net interest income after reserve allocations** | | **11,753,862** | **6,269,388** |
| Net loss on foreign exchange transactions | 17 | (53,167) | 218,698 |
| Fee and commission income and expenses, net | 15 | (94,360) | (42,603) |
| Other income/expenses, net | 19 | 8,265 | (5,227) |
| **NET NON-INTEREST INCOME** | | **(139,262)** | **170,868** |
| **OPERATING INCOME** | | **11,614,600** | **6,440,256** |
| Administrative and other operating expenses | 16 | (2,172,561) | (2,114,737) |
| **PROFIT BEFORE TAX** | | **9,442,039** | **4,325,519** |
| Income tax expense | 18 | (1,888,408) | (476,002) |
| **NET PROFIT FOR THE YEAR** | | **7,553,631** | **3,849,517** |
| Other comprehensive income for the year | | - | - |
| **TOTAL INCOME FOR THE YEAR** | 18 | **7,553,631** | **3,849,517** |

**On behalf of the management:**

Asghar Najafimarganmaskan Khalil
Branch manager

March 19, 2025
Baku, Republic of Azerbaijan

Vugar Mirheydarov Mirfazil
Chief Accountant

March 19, 2025
Baku, Republic of Azerbaijan

The notes on pages 8-40 form an integral part of these financial statements.

Bank Melli Iran Baku Branch

**FOR THE YEAR ENDED DECEMBER 31, 2024**
**STATEMENT OF CHANGES IN EQUITY**
*(in Azerbaijani Manat)*

| | Notes | Statute | Accumulated damage | Total Capital |
|---|---|---|---|---|
| **Balance as of December 31, 2022** | 13 | **73,611,171** | **(35,487,899)** | **38,123,272** |
| Net profit for the year for 2023 | | - | 3,849,517 | **3,849,517** |
| **Balance as of December 31, 2023** | 13 | **73,611,171** | **(31,638,382)** | **41,972,789** |
| Net profit for the year for 2024 | | - | 7,553,631 | **7,553,631** |
| **Balance as of December 31, 2024** | 13 | **73,611,171** | **(24,084,751)** | **49,526,420** |

**On behalf of the management:**

Asghar Najafimarganmaskan Khalil
Branch Manager

March 19, 2025
Baku, Republic of Azerbaijan

Vugar Mirheydarov Mirfazil
Chief Accountant

March 19, 2025
Baku, Republic of Azerbaijan

The notes on pages 8-40 form an integral part of these financial statements .

**FOR THE YEAR ENDED DECEMBER 31, 2024**
**FLOW STATEMENT**
*(in Azerbaijani Manat)*

| | Notes | For the year ending December 31, 2024 | For the year ended December 31, 2023 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before income tax | | 9,442,039 | 4,325,519 |
| Adjustments for : | | | |
| Provision for impairment losses | 8 | (6,171,146) | (3,138,891) |
| Exchange rate difference on foreign currency transactions | 17 | 53,167 | (88,501) |
| Depreciation and amortization expenses | 10 | 134,812 | 131,228 |
| Other cash received | | 4,217,776 | - |
| **Cash flow from operating activities before changes in operating assets and liabilities** | | **7,676,649** | **1,229,355** |
| Decrease / (increase) in receivables from banks and other financial institutions | | (11,172,757) | (32,658,500) |
| (increase)/decrease in loans and advances to customers | | 3,691,466 | 6,238,276 |
| (increase)/decrease in other assets | | (488,564) | 2,191,155 |
| (decrease) in subordinated debt obligations | | (937,800) | - |
| Amount payable to banks and other financial institutions (decrease) / increase | | (2,490,311) | (15,425,663) |
| (decrease) in liabilities to customers | | (8,431,650) | 34,933,195 |
| (Decrease)/ increase in current income tax liabilities | | 1,820,396 | - |
| Decrease (decrease)/ increase in other liabilities | | (3,384) | (10,764) |
| **Net cash provided/(used) before tax by operating activities** | | **(10,335,956)** | **(3,502,946)** |
| Income tax paid | | (342,984) | (595,415) |
| **Net cash provided/used in operating activities** | | **(10,678,940)** | **(4,098,361)** |
| **Cash flow from investing activities** | | | |
| **/decrease in investment securities** | | **2,953,141** | **(11,262,274)** |
| Purchase of long-term assets | | (41,312) | **(49,519)** |
| **Total cash inflows/(disbursements) from investing activities** | | **2,911,829** | **(11,311,793)** |
| **The impact of reserves created in cash and cash equivalents** | | - | **148,255** |
| The impact of exchange rate differences on cash and cash equivalents | | **379,356** | **1,979,517** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(7,387,755)** | **(15,410,154)** |
| **Cash and cash equivalents at the beginning of the year** | 7 | **46,216,965** | **59,499,347** |
| **Cash and cash equivalents at the end of the year** | 7 | **38,829,210** | **46,216,965** |

**On behalf of the management:**

Asghar Najafimarganmaskan Khalil
Branch Manager

March 19, 2025
Baku, Republic of Azerbaijan

BANK MELLI IRAN BAKI FILIALI
BAKU BRANCH BANK MELLI IRAN

Vugar Mirheydarov Mirfazil
Chief Accountant

March 19, 2025
Baku, Republic of Azerbaijan

The notes on pages 8-40 form an integral part of these financial statements .

## 1. INTRODUCTION

### The bank and its activities

These financial statements have been prepared for "Bank Melli Iran Baku Branch" ("Bank") in accordance with International Financial Reporting Standards for the year ended December 31, 2024.
The Bank is registered in the Republic of Azerbaijan and operates in this country.

**Principal activity:** The principal activity of the Bank is to carry out commercial and retail banking operations in the Republic of Azerbaijan. The Bank operates under a full banking license under registration number 124 issued by the Central Bank of the Republic of Azerbaijan ("CBA") in 1993.

**The legal and actual address of the Bank is as follows:** Republic of Azerbaijan, Baku city, 8 Noyabr avenue 23, AZ 1025,
As of December 31, 2024, the Bank had 22 employees (December 31, 2023: 22).
As of December 31, 2024 and 2023, the shareholders' shares in the Bank's shareholder structure were as follows:

| Shareholders | Amount of share (AZN) | Share percentage |
|---|---|---|
| "Bank Melli Iran" | 100% | 100% |
| **Total authorized capital** | **100%** | **100%** |

**Functional currency** . The amounts in these financial statements are presented in Azerbaijani Manat ("AZN"). The Azerbaijani Manat is the official currency of the Republic of Azerbaijan.

## 2. BASIC PRINCIPLES OF REPORTING

### Principle of compatibility

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board effective as of December 31, 2023.

### Presentation basics

The financial statements have been prepared on a historical cost basis unless otherwise stated in the accounting policies set out below (for example, certain financial instruments are measured at fair value).

Fair value is the price received when selling an asset or paid when transferring a liability in a transaction between market participants at the measurement date. When determining the fair value of an asset or liability, the Bank uses observable market inputs to the extent possible. If the fair value of an asset or liability cannot be determined, the Bank uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs (using prices for similar transactions, discounted cash flow analysis, or a comparable market approach that reflects the issuer's option pricing model in specific cases). The inputs used are consistent with the characteristics of the asset/liability that market participants would consider.

## 2. BASIC PRINCIPLES OF REPORTING (continued)

Fair value is divided into different hierarchical categories based on the degree to which the inputs to the measurement are observable and the significance of the inputs in determining fair value as a whole:

- Level 1 - fair value is derived from the current price (unadjusted) in an active market for identical assets/liabilities.
- Level 2 - fair value is derived from observable inputs for the asset or liability, other than the current prices shown in Level 1, that are directly (e.g., prices) or indirectly (derived from prices).
- Level 3 - fair value is derived from valuation techniques that incorporate inputs for assets and liabilities that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognized by the Bank at the end of the reporting period in which the change occurs.

### Functional and reporting currency

The functional currency of the Bank and the currency in which these financial statements are prepared is the Azerbaijani Manat ("AZN"), the national currency of the Republic of Azerbaijan.

## 3. BANK'S OPERATING ENVIRONMENT

The Azerbaijani economy exhibits certain characteristics typical of emerging markets. The current and future growth and sustainability of the Azerbaijani economy depend significantly on the effectiveness of the government's fiscal and monetary policies, as well as on the prices of crude oil and natural gas and the stability of the Azerbaijani manat.

The recovery of economic activity in 2023 continued in 2024, thanks to the high activity of non-energy sectors. Real GDP increased by 4.1% in 2024. Economic growth in the non-oil sector played a leading role in the economy, increasing by 6.2 percent in real terms.

The year 2024 is characterized by rising geopolitical tensions, rising commodity prices on world stock exchanges and inflation in trading partner countries, remaining problems in the global value chain, and the impact of these processes on the global economy as the world gradually recovers from the pandemic. The recovery of global demand at a faster pace than supply, sharp fluctuations in world commodity prices and inflation in trading partner countries, as well as rising supply and logistics costs, have affected inflation within the country. In December 2024, annual inflation was 8.8%. In order to combat rising inflation, the Central Bank of the Republic of Azerbaijan (CBA) decided to increase the discount rate by 75 percentage points three times in 2024, bringing it to a total of 9.0%, and then reduce it by 100 percentage points twice, bringing it to a total of 8.0%.

Although uncertainties related to the global geopolitical and geoeconomic situation, as well as high levels of global inflation, remain risks, the country's positive trade balance and the increase in strategic foreign exchange reserves allow maintaining the stability of the macroeconomic environment in which the financial system operates. At the same time, the implemented adequate monetary and fiscal policy reduces risks to macroeconomic stability. As a result of the appropriate policy pursued by the Azerbaijani government, the exchange rate of the Azerbaijani manat (AZN) against foreign currencies was maintained stable throughout 2024.

## 3. BANK'S OPERATING ENVIRONMENT (continued)

During 2024, global rating agencies reaffirmed Azerbaijan’s previously positive sovereign credit ratings in both foreign and local currencies. In February 2025, Fitch Ratings affirmed Azerbaijan’s long-term foreign currency issuer default rating (IDR) at “BBB-” with a “stable” outlook. The rating is supported by a very strong foreign trade balance, low public debt, and financing flexibility from large sovereign fund assets.

The current impact of the political and economic situation is difficult to predict, but its impact on the Azerbaijani economy may be greater, leading to deterioration of public finances, instability of financial markets, illiquidity in capital markets, increased inflation, and depreciation of the national currency against major foreign currencies.

It should be noted that the Bank has temporarily suspended its core operations since May 2024, based on a decision issued by the Central Bank of the Republic of Azerbaijan (“CBA”). This, in turn, is one of the main reasons for the decrease in the Bank's income.

The Bank's management is monitoring the processes taking place in the current economic environment and is taking preventive measures to ensure the sustainability and development of the Bank's activities in the near future. The Bank has secured a debt obligation in the form of a subsidy from the head office to provide the necessary funds.

The management is also taking all necessary measures to ensure the sustainability of the Bank's operations and support its customers and employees:

- The Bank has reviewed the processes affecting customers and taken important steps towards optimizing these processes;

- As a result of the measures taken, the Bank's customer loan portfolio decreased by 73%, but the loan portfolio to financial institutions increased by 34%. At the same time, the investment portfolio is one of the main parts of the overall portfolio.

In the coming years, the Bank will continue its development by taking steps towards increasing efficiency and profitability.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

**Fundamentals of preparing financial statements:**

These financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards (“IFRS Accounting Standards”), with financial instruments initially recognized at fair value and remeasured at fair value through profit or loss (“FVTPL”) and fair value through other comprehensive income. The significant accounting policies used in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all periods presented, unless otherwise stated.

These financial statements are intended for primary users, who are investors who provide debt or equity capital to the reporting entity. These financial statements are prepared on the assumption that primary users have a reasonable understanding of business and financial activities and are able to carefully review and analyze the information.

The objective of these financial statements is to disclose only the information that management considers important to the primary users. Management seeks not to obscure the understandability of these financial statements by confusing important information with unimportant information. Accordingly, only significant accounting policies are disclosed in the relevant notes.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

Initial recognition of financial instruments. Financial instruments measured at fair value through profit or loss (FVTPL) are initially recognized at fair value. All other financial instruments are initially recognized at fair value, including transaction costs.

Classification and subsequent measurement of financial assets: measurement categories. The Bank classifies financial assets in the following categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the relevant portfolio of assets and (ii) the nature of the cash flows from the asset.

Classification and subsequent measurement of financial assets: business model. The business model is determined for a group of assets (at the portfolio level) based on all relevant evidence of the activities that the Bank plans to undertake to achieve the objectives set for the portfolio at the measurement date. Factors that the Bank considers in determining the business model include the objective and composition of the portfolio, past experience in generating cash flows from the relevant assets, approaches to assessing and managing risks and methods for assessing the profitability of the assets. The key considerations used by the Bank in determining the business models for its financial assets are set out in Note 4.

Classification and subsequent measurement of financial assets: cash flow characteristics. When the business model involves holding assets to collect contractual cash flows or to collect contractual cash flows and sell financial assets, the Bank assesses whether the cash flows consist solely of principal and interest payments (SPPI analysis).

When the contractual terms involve exposure to risk or volatility that is not consistent with the terms of the underlying credit agreement, the relevant financial asset is classified and measured in the FVTPL category. The SPPI analysis is performed upon initial recognition of the asset and is not re-assessed subsequently. The key judgments used by the Bank when performing the SPPI analysis for its financial assets are set out in Note 4.

Impairment of financial assets: Allowance for impairment. The assessment of impairment includes: (i) an objective and probable amount determined by assessing a range of possible outcomes, (ii) the time value of money, and (iii) reasonable and verifiable information about past events, current conditions, and projected future economic conditions at the reporting date that is available without undue cost or effort.

As of the reporting date, all debt instruments of the Bank are measured at amortized cost and are presented in the statement of financial position, net of allowance for credit losses. A separate allowance is recognized as part of the liability in the statement of financial position for expected credit losses on loan commitments and financial guarantees.

The Bank applies a three-stage impairment model based on changes in credit quality of financial assets since initial recognition. A financial instrument that is not impaired at initial recognition is classified as Stage 1. In Stage 1, expected credit losses on financial assets are measured at the amount of lifetime expected credit losses (the "12-month expected credit losses") that result from default events that could occur within the next 12 months or until the contractual maturity date (the "12-month expected credit loss"). If the Bank determines that there has been a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and expected credit losses on that asset are measured at the lifetime expected credit losses, i.e. the contractually agreed

The Bank determines whether a significant increase in credit risk has occurred, as set out in Note 8. If the Bank determines that a financial asset is impaired, the asset is transferred to Stage 3 and lifetime expected credit losses on that asset are measured.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

The Bank's determination of impaired assets and default events is explained in Note 8.

Exceptionally, for certain financial instruments, credit losses are measured over the period during which the Bank is exposed to credit risk, i.e. the period until such credit losses are reduced through credit risk management measures (even if this period exceeds the maximum term of the credit agreement). This is because the amount of credit loss incurred due to the call for repayment of the loan and the cancellation of an unused credit line is not limited to the notice period specified in the agreement.

**Write-off of financial assets:** Financial assets are written off in whole or in part when all practical possibilities of the Bank to recover the financial assets have been exhausted and the Bank concludes that the expectations of recovery of such assets are not justified. The derecognition of assets represents the termination of recognition. The Bank may write off financial assets for which enforcement measures are still being taken when it has attempted to recover amounts due under the contract but has no reasonable expectation of recovery of those amounts.

Derecognition and modification of financial assets. The Bank derecognises financial assets in the following cases: (a) when the assets are repossessed or the rights to receive cash flows from the assets expire, or (b) when the Bank transfers or enters into an agreement to transfer the cash flows from the financial assets and (i) transfers substantially all the risks and rewards of ownership of the assets to another party, or (ii) does not transfer or retain substantially all the risks and rewards of ownership of the assets but does not retain control of the assets. Control is retained unless the counterparty has the ability to sell the asset to an unrelated third party without imposing restrictions on the sale.

The Bank occasionally reviews or modifies the contractual terms of financial assets. In such cases, the Bank assesses that the modification of the contractual cash flows is significant, taking into account the following factors: any new contractual terms that significantly affect the risk profile of the asset (for example, profit sharing or return on equity), significant changes in interest rates, changes in currencies, the creation of new or additional credit collateral that significantly affects the credit risk associated with the asset, or a significant extension of the term of the loan when the borrower is in financial difficulty.

When the new terms are significantly different, the Bank derecognises the previous financial asset because the right to receive cash flows from the previous asset has expired and recognises the new asset at fair value. The date of renegotiation of the contractual terms is considered the date of initial recognition for the purpose of calculating any subsequent impairment, including determining whether there has been a significant increase in credit risk. In addition, the Bank assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and the fair value of the new asset that has been significantly modified (unless the difference is attributable to an equity transaction with shareholders) is recognised in profit or loss.

If the contractual terms are renegotiated due to the counterparty's financial difficulties and inability to make previously agreed payments, the Bank compares the original and revised expected cash flows for the asset to determine whether the risks and rewards of the asset have changed significantly as a result of the modification. If the risks and rewards have not changed, the modified asset is not significantly different from the original asset and the modification does not result in derecognition. The Bank recalculates the total carrying amount by discounting the cash flows under the modified contract at the original effective interest rate and recognizes the gain or loss resulting from the modification in profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

Measurement categories of financial liabilities. As of the reporting date, all financial liabilities of the Bank are measured at amortized cost.

Derecognition of financial liabilities. A financial liability is derecognized when the obligation is discharged (i.e., when the obligation specified in the contract is discharged, cancelled, or the performance period expires).

Exchanges of debt instruments with significantly different terms between the Bank and its previous creditors, as well as significant modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. In addition, other qualitative factors are considered, such as changes in the currency in which the instrument is denominated, the type of interest rate, new terms related to the conversion of the instrument and changes in the specific terms of the loan. If the exchange or modification of the debt instruments is considered as an extinguishment of the liability, all costs or fees paid are recognized in profit or loss on the extinguishment of the liability. If the exchange or modification of the debt instrument is not considered as an extinguishment of the liability, all costs or fees paid are reflected as an adjustment to the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Changes that do not result in the settlement of liabilities are accounted for as changes in the estimated indicator using the accumulated depreciation method with the previous date, and in this case, the gain or loss is reflected in profit or loss, unless the economic substance of the difference in the carrying amount is attributable to equity transactions with the shareholder.

**Cash and cash equivalents:** Cash and cash equivalents include cash, receivables from the Central Bank of the Republic of Azerbaijan, excluding mandatory reserves, unrestricted funds on correspondent accounts, as well as overnight deposits and deposits with an initial maturity of less than three months. Funds with a maturity of more than three months at the date of issue are not included in cash and cash equivalents in the statements of financial position and cash flows. Cash and cash equivalents are recorded at amortized cost. Central Bank notes with a maturity of less than 90 days are included in cash and cash equivalents in the statement of cash flows.

**Mandatory reserves at the Central Bank** : Mandatory reserves at the Central Bank are recorded at amortized cost and represent non-interest-bearing mandatory reserve deposits that are not intended to finance the Bank's day-to-day operations and are therefore not included in cash and cash equivalents for the purpose of preparing the statement of cash flows.

Amounts receivable from credit institutions. Amounts receivable from credit institutions are recorded when the Bank advances cash to counterparty banks. Amounts receivable from credit institutions are recorded at amortized cost.

Investments in debt securities. As of the reporting date, all debt securities of the Bank are measured at amortized cost.

Investments in shares. The Bank's policy is to measure investments in shares at FVOCI when they are held for strategic purposes and not solely to generate investment income.

Loans to customers. Loans to customers are recognized when the Bank advances cash to customers for the purpose of obtaining credit from the customer or extending credit to the customer. Given the nature of the business model and cash flows, the Bank classifies loans to customers as financial instruments measured at amortized cost when they are held to collect contractual cash flows, those cash flows meet the SPPI criteria, and are not voluntarily designated as at FVTPL.

Impairment provisions are determined based on expected credit loss forecasting models. The inputs, assumptions and calculations used in estimating expected credit losses are:

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

Information on the methods, as well as the procedure for incorporating forecast data into the GKZ models by the Bank, is provided in Note 8.

**Repossessed collateral:** Repossessed collateral consists of financial and non-financial assets acquired by the Bank in connection with past due loans. These assets are initially recognized at fair value upon acquisition and are included in inventories within property and equipment, other financial assets, investment property and other assets, depending on the type of asset and the Bank's intention to use the assets. Repossessed collateral is measured at the lower of carrying amount or fair value less costs to sell.

**Commitments to extend loans:** The Bank enters into commitments to extend loans. Such commitments are either irrevocable commitments or commitments that can be withdrawn only in response to significant adverse changes. Such commitments are initially recognized at fair value, usually evidenced by the amount of the payment received. This amount is amortized on a straight-line basis over the term of the commitment, except when the Bank is likely to enter into a specific loan agreement and does not plan to draw down the loan shortly after it is granted; commission income on commitments to extend loans is recognized as deferred income and is included in the carrying amount of the loan upon initial recognition. At the end of each reporting period, the commitments are measured as follows:
(i) the unamortized balance at initial recognition and (ii) the amount of the allowance for credit losses determined using the LTV model. Unless the liability provides for a loan at a rate below the market interest rate, the liability is measured at the higher of these two amounts. The carrying amount of commitments to extend loans is included in liabilities. In contracts that consist of a loan and an undrawn loan commitment, the Bank is unable to separately identify the undrawn loan component and the LTV for the loan component, and the LTV for the undrawn loan component is recognized together with the allowance for credit losses. If the aggregate LTV for the loan and the undrawn loan commitment exceeds the total carrying amount of the loan, the excess is recognized as a liability.

**Financial guarantees:** Financial guarantees require the Bank to compensate the guarantee holder for losses incurred if a specified debtor fails to make payments on time according to the original or modified terms of a debt instrument. Financial guarantees are initially recognized in "other liabilities" at fair value, which is usually equal to the amount of the commission received. This amount is amortized on a straight-line basis over the life of the guarantee. At the end of each reporting period, guarantees are measured at the higher of: (i) the allowance for the amount of the loss on the guarantee determined by the expected loss model and (ii) the remaining amount not amortized at initial recognition. In addition, an allowance for expected credit losses is recognized for commissions receivable, which are recognized as an asset in the statement of financial position.

Taxes. Current income tax expense is calculated in accordance with the legislation of the Republic of Azerbaijan. Income tax expense consists of current and deferred income tax and is recognized in profit or loss for the year. However, taxes related to transactions recognized in other comprehensive income or directly in equity in the same or a different period are recognized in other comprehensive income or directly in equity.

Current taxes represent the amount payable or recoverable from the tax authorities in respect of taxable profit or loss for the current and prior periods. Taxable profit or loss is calculated on an estimated basis when the financial statements are approved before the relevant tax returns are filed. Taxes other than income taxes are recorded as administrative and other operating expenses.

Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the reporting date and

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

It is measured by the tax rates applicable under tax laws at the time the assets are sold or the liabilities are discharged.

In addition, various transaction taxes such as VAT, property tax, withholding tax and other taxes are imposed on the Bank's operations in Azerbaijan. These taxes are included in general and administrative expenses.

**Property and equipment:** Property and equipment are recognized at cost, excluding daily servicing costs, less accumulated depreciation and any recognized impairment losses. When the recognition criteria are met, the cost of replacing a portion of the property and equipment is included in that cost when incurred.
Repair and reconstruction costs are expensed as incurred and included in other operating expenses, except when they are required to be capitalized.

**Depreciation:** Depreciation begins on an asset from the time it is available for use. Depreciation is calculated by dividing the carrying amounts of the assets into equal parts over their estimated useful lives as follows:
Buildings: 25 - 50 years (2%)
Other equipment items: 4 – 5 years (20%)
Furniture and other equipment: 5 – 10 years (20%)
Computer and office equipment: 4 – 6 years (20%)
Vehicles: 8 – 10 years (12.5%)

The residual value, useful life and depreciation methods of assets are reviewed at the end of each financial year and adjusted if necessary.

**Intangible assets:** Intangible assets consist of software, licenses, and other intangible assets.
Intangible assets are stated at cost less accumulated amortization losses. Intangible assets have finite useful lives. Intangible assets with finite useful lives are amortized over a useful life of 1-10 years (10%).

**Liabilities to financial institutions:** The counterparty represented by liabilities to financial institutions is recorded when financial institutions advance cash or other assets to the Bank.

**Trade payables:** Trade payables reflect financial obligations to individuals, government entities or legal entities and are recognized at amortized cost.

**Subordinated debt:** Subordinated debt is a non-derivative debt payable to Bank Melli Iran Head Office.

is a long-term liability and is stated at amortized cost. Debt, in which case it is considered subordinated debt

It is assumed that in the event of bankruptcy, that debt will be paid after all other creditors have been paid. Subordination

The debt is an element of the Bank's Tier 2 capital.

**Provisions:** Provisions for liabilities and expenses include liabilities of indefinite duration or amount. The Bank recognizes provisions when it has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

**Charter:** Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are recognised in equity as a reduction in the amount received as a result of that issue.
Presentation of items in the statement of financial position in order of liquidity. Since the bank does not have a clearly identifiable operating cycle, it presents current and non-current assets and liabilities in financial

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

does not present it separately in the statement of financial position. Instead, assets and liabilities are presented in order of liquidity.

**Contingent liabilities:** Contingent liabilities are not recognized in the statement of financial position, but are disclosed in the financial statements when it is probable that an outflow of resources will be required to settle them. Contingent assets are not recognized in the statement of financial position, but are disclosed in the financial statements when it is probable that an inflow of economic benefits will flow to them.

**Accounting for interest income and expense:** Interest income and expense on all debt instruments are recorded on an accrual basis using the effective interest method. Under this method, interest income and expense include all commissions and fees, transaction costs, and any other premiums or discounts paid or received between the parties to the contract that are an integral part of the effective interest rate.

The fees related to the effective interest rate include fees received or paid in connection with the origination or acquisition of a financial asset or the issuance of a financial liability (for example, fees for assessing creditworthiness, valuing and recording guarantees or collateral, negotiating the terms of a financial instrument and preparing transaction documents). Fees received by the Bank for commitments to extend loans at market interest rates are considered part of the effective interest rate when the Bank is likely to enter into a specific loan agreement and does not plan to realize the loan shortly after it is granted. The Bank does not classify commitments to extend loans as financial liabilities at FVTPL.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for impaired financial assets (Stage 3). When calculating interest income on such assets, the effective interest rate is applied to the amortized cost of the asset, less any allowance for impairment.

If the credit risk on a financial asset classified as Stage 3 subsequently decreases if the asset is not impaired and the decrease can be objectively related to an event occurring after the asset was determined to be impaired (i.e., the asset is recovered), the asset is reclassified out of Stage 3 and interest income is calculated by applying the effective interest rate to the gross carrying amount. Additional interest income that was not previously recognized in profit or loss because of the asset's classification as Stage 3 but is expected to be earned after the asset is recovered is recognized as a decrease in impairment.

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

- Commission income from services provided at a specific point in time

Fee and commission income is recognized on a straight-line basis over the period in which the customer simultaneously receives and uses the benefits of the services provided by the Bank. Commission income from services provided over a period of time is calculated over that period. These fees include commission income. Fees related to loan commitment obligations (when the probability of such loans being drawn down is high) and other fees related to loans (together with any additional costs) are deferred and recognized as an adjustment to the effective interest rate on the loan.

- Commission income from the provision of operational services

Fee and commission income is recognized when the Bank fulfills its performance obligation, usually upon completion of the related transaction. The amount of fees and commissions received or receivable reflects the transaction price for services designated as distinct performance obligations. Participation in any transaction or negotiation on behalf of a third party is recognized upon completion of the related transaction. Fees or components of fees that are linked to specific performance indicators are recognized upon the fulfillment of the relevant criteria.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

Purchase, sale and conversion of foreign currencies. The Bank carries out transactions on purchase, sale and exchange of foreign currencies through cash and bank accounts. Transactions are carried out at the exchange rate determined by the Bank and which differs from the official exchange rate on the transaction dates. The official exchange rate is the Bank's
The differences between the exchange rates determined by the exchange rate and the exchange rate at the time the performance obligation is satisfied are recognized as income, less any loss on the revaluation of the foreign currency position.

**Foreign currency translation:** The amounts in these financial statements are presented in Azerbaijani manat ("AZN"), which is the Bank's functional and presentation currency.
The Bank has used the following official exchange rates as of December 31, 2024 and December 31, 2023 in preparing these financial statements:

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

Intangible assets are assessed as having a finite or indefinite useful life. Intangible assets with a finite useful life are amortized over their useful lives. The useful life and amortization method for intangible assets with a finite useful life are reviewed at least at each financial year-end. Changes in the useful life or in the expected use of the future economic benefits embodied in the asset result in a change in the amortization period and methodology, which is subsequently accounted for as a change in accounting policy. Amortization expense for intangible assets with a finite useful life is presented as a separate line item in the income statement.

***Depreciation.*** Depreciation in the bank is calculated using the declining balance method at the following interest rates:

If an asset is already obsolete and has reached the end of its useful life, the estimated amount that the Bank would receive from selling the asset, less estimated costs to sell, is the residual value of the asset. The residual values and useful lives of assets are reviewed and adjusted at the end of the reporting period, if necessary.

***Due to other banks.*** Due to other banks are recorded from the moment cash or other assets are provided to the Bank by correspondent banks. Non-derivative financial liabilities are recorded at amortized cost. When the Bank redeems its loans, these debt obligations are derecognized from the statement of financial position and the difference between the carrying amount of the liability and the amount paid is attributed to income or expenses arising from the repayment of the debt. After initial measurement, due to other banks are stated at amortized cost using EFD. Amortized cost is calculated taking into account the costs that are an integral part of EFD and the discounts received when the funds are received.

***Other borrowed funds.*** Other borrowed funds include loans granted by resident and non-resident banks with fixed maturity and fixed or variable interest rates. Other borrowed funds are recorded at amortized cost . After initial measurement, other borrowed funds are stated at amortized cost using the EFD. The amortized cost is calculated by taking into account the costs that are an integral part of the EFD and the discounts received when the funds were received.

***Income tax.*** Income tax is calculated in accordance with the legislation of the Republic of Azerbaijan in force or effective as of the reporting date. Income tax expense is current and deferred.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

consists of income tax and the tax effect is recognised in profit or loss in the period in which it is recognised, except for transactions recognised directly in other comprehensive income or equity. Current income tax, current
constitutes the amount to be paid to or recovered from the tax authorities in respect of taxable profit or loss for previous periods .

Taxable profit or loss is calculated based on estimated figures, if the financial statements are approved before the relevant tax returns are filed. Taxes other than income tax are recorded as administrative and other operating expenses.

Deferred income tax is provided using the liability method for tax losses and all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. As an exception, no deferred tax is provided on temporary differences arising on initial recognition of assets and liabilities (except in business combinations) unless the transaction affects financial profit or taxable profit. Deferred tax is provided using tax rates that have been enacted or substantively enacted by the end of the reporting period , using tax rates that are expected to apply in the period in which the temporary differences are expected to reverse or the tax losses carried forward are utilized. Deferred tax assets and tax losses carried forward are provided for temporary differences that are deductible from income to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilized.

***Uncertain tax positions:*** The Bank's uncertain tax positions are assessed by management at the end of each reporting period. Tax liabilities are not taken into account when management believes that additional tax liabilities will arise if the Group's tax position is challenged by the tax authorities. Such assessment is made based on the interpretation of tax legislation in force or that has come into force at the end of the reporting period and any known decisions of courts or other authorities on these matters. Liabilities for fines, penalties and taxes, other than income taxes, are recorded based on management's best estimate of the expenditure required to settle the liabilities at the end of the reporting period.

***Income and expense recognition:*** Interest income and expense on all debt instruments are recognized in the statement of comprehensive income on an accrual basis using the effective interest method. Under this method, interest income and expense include all commissions and fees paid or received between the parties to the contract and that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts .

Commission fees related to the effective interest rate include commission fees earned or paid in connection with the origination or acquisition of a financial asset or the issuance of a financial liability (for example, fees for assessing creditworthiness, valuing and recording guarantees or collateral, negotiating the terms of a financial instrument and preparing transaction documents). Commission fees earned by the Bank for commitments to extend loans at market interest rates are considered part of the effective interest rate when the Bank is expected to sign a specific loan agreement and does not plan to realize it shortly after the loan is granted. The Bank does not classify commitments to extend loans as financial liabilities at fair value through profit or loss .

When there is doubt about the timely repayment of loans and other debt instruments, they are written down to their recoverable amount by reflecting interest income based on the effective interest rate used to discount future cash flows for the purpose of determining the amount of impairment.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

All other commission income, other income and other expenses are generally recognized on an accrual basis based on the stage of completion of a specific transaction, determined as the proportion of services actually rendered in the total services to be rendered . Commission fees on syndicated loans are recognized as income when the syndication is completed and the Bank does not retain any portion of the loan package or retains a portion of the package at the same effective interest rate as the other parties to the transaction .

Commission income from arranging transactions for third parties (for example, the purchase of loans, shares and other securities or the purchase or sale of businesses acquired as a result of such transactions) is recorded when the transaction is completed. Commission income from investment portfolio management and other management and advisory services is generally recognized on a time-weighted basis in accordance with the terms of the contracts for the provision of the services . Commission income from managing the assets of investment funds is recognized on a time-weighted basis over the period in which such services are provided. The same principle applies to property management, financial planning and depository services provided on a continuing basis over a long period.

***Foreign currency transactions :*** The Bank's functional currency is the currency of the primary economic environment in which it operates. The Bank's functional and reporting currency is the Azerbaijani Manat (“AZN”), the national currency of the Republic of Azerbaijan .

Monetary assets and liabilities are translated into the functional currency of the entity at the official exchange rate of the Central Bank of Armenia at the relevant reporting date. Any positive or negative exchange differences arising from the settlement of such transactions and the translation of monetary assets and liabilities into the functional currency at the official exchange rate of the Central Bank of Armenia at the year-end are recognised in the income statement. The translation into local currency at the exchange rate of the year-end is not applied to non-monetary items, including equity instruments. The effect of exchange rate changes on the fair value of equity securities is recognised as part of income or expenses as a result of revaluation at fair value.

***Employee expenses and related deductions.*** Wages, salaries, payments to the State Pension and Social Protection Fund of the Republic of Azerbaijan, annual payments for vacation and leave, bonuses and non-monetary benefits, and other employee-related expenses are accrued when the Bank's employees provide the relevant services .

## 5. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes assumptions and judgments that affect the amounts recorded in the financial statements and the carrying amounts of assets and liabilities within the next financial year. These assumptions and judgments are regularly reviewed based on management's experience and other factors, as well as estimates of future events that management believes are reasonable in light of current circumstances. In applying accounting policies, management also makes professional assumptions and estimates. The professional judgments that have the most significant effect on the amounts recorded in the financial statements and the estimates that result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year include the following:

**Going concern -** Management has prepared these financial statements on a going concern basis. In making this judgment, management has considered the Bank's financial position, current plans, future profitability and use of financial resources, and has analyzed the impact of recent macroeconomic changes on the Bank's operations.

## 5. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

**ECL estimation -** ECL estimation is a significant calculation performed using appropriate methodology, models and input data. Detailed information on the ECL estimation methodology is provided in Note 8. The following components significantly affect the loan loss allowance: the definition of default, significant increase in credit risk (SICR), probability of default (PD), exposure at default (EAD), loss given default (LGD), as well as macroeconomic scenarios. The Bank regularly reviews and validates models and model-based data to reduce differences between expected credit loss estimates and actual credit losses.

Exposure to revolving credit (e.g. credit cards, overdrafts). The Bank's exposure to credit risk under certain credit facilities may exceed the maximum term of the credit agreement. This exception applies to certain revolving credit facilities that consist of a loan and an undrawn credit line, as well as to cases where the Bank does not limit its exposure to credit losses due to contractual calls and cancellations of undrawn credit.

For such credit facilities, the Bank estimates expected credit losses over the period of exposure to credit risk and ECLs are not reduced by credit risk management measures. The application of this exception is based on judgment. Management has exercised judgment in determining the credit facilities, such as personal and commercial loans, to which this exception applies. The Bank has applied this exception to credit facilities with the following characteristics: (a) no fixed maturity or structure, (b) the contractual termination option is not used for the day-to-day management of credit risk exposure and is terminated only when the Bank becomes aware of an increase in credit risk at the individual credit facility level, and (c) the risks are managed as a group. In addition, the Bank has exercised judgment in determining the period for which ECLs are measured, including the date on which exposures are incurred and the expected date of their termination.

The Bank has considered the following in relation to historical information and experience: (a) the period during which the Bank has been exposed to credit risk on similar instruments, including the date of the last significant modification to the credit facility that determines the beginning of the period in which a significant increase in credit risk is assessed; (b) the period over which defaults on similar financial instruments are likely to occur after a significant increase in credit risk; and (c) credit risk management measures (e.g. reduction or cancellation of unused credit limits), prepayment ratios and other factors that affect the expected maturity of loans. In using these factors, the Bank divides the portfolios of renegotiated credit facilities into subgroups and applies the most appropriate factors based on historical information and experience, as well as forecast information.

**Significant increase in credit risk:** To assess whether there is a significant increase in credit risk, the Bank compares the relative default risks calculated for the financial asset at the reporting date and initial recognition. The assessment considers the relative increase in credit risk, rather than the specific level of credit risk at the reporting date. The Bank considers a number of factors, including supporting and substantiated information that is not costly to obtain, including behavioral aspects of specific customer portfolios. The Bank identifies behavioral indicators of increased credit risk prior to the moment of default and uses the relevant predictive data in assessing credit risk at the individual financial instrument or portfolio level. See Note 8.

## 5. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

**Business model assessment:** Financial assets are classified based on the business model. When assessing the business model, management has used judgment to determine the level of aggregation and the portfolios of financial instruments. When assessing sales transactions, the Bank considers their frequency, duration and value in previous periods, the reasons for the sales and expectations regarding future sales. Sales transactions aimed at reducing potential losses due to deterioration in credit quality are considered to be in line with the "cash flow generation" business model. Other sales made before maturity that are not related to credit risk management measures are also considered to be in line with the "cash flow generation" business model, provided that they occur infrequently and their value is not significant individually or in the aggregate. The Bank assesses the significance of sales transactions by comparing the volume of sales with the value of the portfolio for which the business model is assessed over the average life of the portfolio. In addition, the sale of financial assets that is expected only in "stress" scenarios or in connection with a discrete event that is not within the control of the Bank, does not recur and cannot be predicted by the Bank is considered a sale transaction that is not related to the purpose of the business model and does not affect the classification of the relevant financial assets.

Although the "cash flow generation and sale" business model involves holding assets to generate cash flows, the sale of assets to achieve the objectives of the business model (managing liquidity needs, generating certain interest income, or aligning the term of financial assets with the term of the liabilities financed by those assets) is considered an integral part of it.

Another category includes portfolios of financial assets managed primarily to generate cash flows for profit through sales. This business model is typically associated with the acquisition of contractual cash flows.

The bank's debt securities are classified as "cash flow generation" business models based on the assumption that they will only be sold in a "stress" scenario.

Assessing whether cash flows meet the SPPI criterion. Judging whether the cash flows of a financial asset meet the SPPI criterion requires judgment.

The time value of money element may be modified in the following cases, for example, when the contractual interest rate changes regularly, but the period of this change does not correspond to the period of the interest rate on the debt instrument (for example, a loan is based on a three-month interbank rate, but this interest rate changes every month). The effect of changing the time value of money is assessed by comparing the cash flows of the relevant instrument, at each period and in the aggregate over the life of the financial instrument, with a reference debt instrument consisting of cash flows that meet only the criterion of principal and interest payments. The assessment is performed for all reasonable possible scenarios, including reasonable possible financial stress scenarios that may occur in financial markets. If the cash flows assumed in the scenario differ significantly from the baseline, the cash flows of the instrument being assessed do not meet only the criterion of principal and interest payments and the financial instrument is subsequently recorded in the FVTPL category.

The Bank has identified and reviewed contractual terms that vary the timing or amount of cash flows under the contract. Cash flows are considered to meet the criterion of principal and interest payments only if it is possible to prepay them under the terms of the loan, and the amount prepaid reflects the principal and accrued interest, as well as reasonable additional compensation for early termination of the contract. The principal amount of the asset is the amount of subsequent principal payments (i.e.

## 5. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(i.e., interest-free payments determined using the effective interest method) is equal to the fair value at initial recognition. As an exception to this rule, the standard also allows instruments with prepayment elements to meet the criterion of only principal and interest payments if they meet the following conditions: (i) the asset is issued at a premium or discount; (ii) the prepayment amount consists of the nominal amount of the contract and accrued interest, as well as reasonable additional compensation for early termination of the contract; and (ii) the fair value of the prepayment element at initial recognition is immaterial.

**Valuation of collateral:** Management regularly reviews the market value of collateral. Management uses its judgment or independent judgment to adjust the fair value of collateral to current conditions. The amount of collateral or collateral required depends on the assessment of the credit risk of the counterparty.

**Initial recognition of related party transactions:** The Bank enters into transactions with related parties in the ordinary course of business. In accordance with IFRS 9, financial instruments should be initially recognized at fair value. However, in order to determine whether those transactions are carried out at market or non-market interest rates, it is necessary to use professional judgment when there is no active market for such transactions. The basis for making judgments is the determination of the price of similar transactions with unrelated parties and the analysis of the effective interest rate. No transactions with related parties were carried out in 2024.

**Modification of financial assets:** When financial assets are modified in accordance with the contractual terms (for example, when their terms are renegotiated), the Bank assesses whether this modification is significant and should lead to the derecognition of the original asset and the recognition of a new asset at fair value. This assessment is based primarily on the qualitative factors set out in the relevant accounting policy and requires the application of significant judgment. In particular, the Bank makes judgments when deciding whether to derecognize impaired loan agreements that have been renegotiated, as well as when to treat newly recognized loans as impaired loans at initial recognition. The decision on the need for derecognition is based on the risks and rewards of such a modification, i.e. the expected cash flows (cash flows not stipulated in the contract).

Management has determined that the risks and rewards of such loan modifications have not changed and, therefore, substantially all of these modifications and loans have not been derecognized or reclassified from the impaired loan stage.

**Financial asset write-off policy:** Financial assets are written off in whole or in part when the Bank has exhausted all practical possibilities to recover them and the Bank concludes that there is no reasonable expectation of recovery of such assets. The determination of cash flows for which there is no reasonable expectation of recovery requires judgment. Management has considered the following factors for assets for which there is no reasonable expectation of recovery: liquidation process or bankruptcy proceedings, as well as a court order.

The Bank makes assumptions and judgments that affect the amounts of assets and liabilities reported in the financial statements within the next year. These assumptions and judgments are regularly reviewed based on management's experience and other factors, as well as estimates of future events that management believes are reasonable in light of current circumstances. Management also makes professional judgments and estimates in the application of accounting policies. The professional judgments that have the most significant effect on the amounts reported in the financial statements are

## 5. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

The following are judgments and estimates that cause significant adjustments to the carrying amounts of assets and liabilities within the next year:

***Impairment loss on loans and advances:*** All financial instruments are initially measured at fair value (positive or negative). Financial assets and financial liabilities are measured at operating costs unless they are carried at fair value through profit or loss.

***Legislation:*** Azerbaijan's tax, currency, and customs legislation is subject to various changes.

***Deferred tax asset accounting: The*** deferred tax asset recognized is the amount of income tax that is available for deduction from taxable income and is recognized in the statement of financial position. A deferred tax asset is recognized when it is probable that the related tax benefit will be realized. The determination of future taxable profit and the amount of tax benefit that is likely to arise in the future is based on the medium-term business plan prepared by management and its extrapolation results. The business plan is based on management's estimates that are appropriate to the circumstances .

***Going concern basis:*** Management has prepared these financial statements on a going concern basis. In making this judgment, management has considered the Bank's financial condition, current plans, profitability of operations and use of financial resources, and has analyzed the impact of the recent financial crisis on the Bank's future operations.

Based on management's measurements and reports, the Bank will be able to meet its liquidity needs over the next 12 months and accordingly, these financial statements have been prepared on a going concern basis.

**New and revised IFRSs effective for the current period**

The following revised standards are effective from January 1, 2023:

IFRS 17 Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which permitted entities to apply existing accounting practices for insurance contracts. Under IFRS 4, investors had difficulty comparing and reconciling the financial results of similar insurance companies. IFRS 17 is the only principles-based standard for accounting for all types of insurance contracts, including contracts ceded by insurers to reinsurers. Under this standard, a group of insurance contracts: (i) is measured at the risk-adjusted present value of future cash flows that take into account all available information about the cash flows from fulfilling the contracts in accordance with observable market data (cash flows from fulfilling the contracts); plus (if the amount is a liability) or minus (if the amount is an asset); (ii) be recognised and measured at the amount of retained earnings (contract service margin) for the group of contracts. Insurers recognise revenue arising from a group of insurance contracts over the period in which the insurance cover is provided and when the risk is released. An entity recognises a loss immediately if a loss exists or is likely to exist for a group of contracts.

Amendments to IFRS 17 and IFRS 4 (published on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments contain some clarifications to make IFRS 17 easier to apply and to simplify certain requirements related to the standard and its transition. This

## 5. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

The amendments cover eight areas of IFRS 17 and do not require changes to the fundamental principles of the standard. The following amendments have been made to IFRS 17:

- Effective date: The effective date of IFRS 17 (including amendments) has been postponed by two years to annual periods beginning on or after 1 January 2023; the effective date of the temporary exemption from the application of IFRS 9 provided for in IFRS 4 has also been postponed to annual periods beginning on or after 1 January 2023.

- Expected recovery of cash flows upon acquisition of an insurance contract: Entities should allocate a portion of the costs of acquiring an insurance contract to the relevant contracts that are expected to be renewed in the future and recognise those costs as an asset until the entity recognises the renewed contracts. Entities should assess the probability of recovery of the asset at each reporting date and disclose that asset in the notes to the financial statements.

- Service margin for investment services contracts: For variable fee-sharing contracts and other contracts for ‘investment income services’ under the general model, the service units should be determined by taking into account the volume of insurance benefits and the expected period of insurance and investment services. Expenses related to investment activities should be included as cash flows under the insurance contract, if the entity’s activities are carried out with the aim of increasing the benefits received from the insurance coverage to policyholders.

- Insurance contracts ceded to reinsurance - loss settlement: When an entity recognizes a loss on initial recognition of a group of loss-making base insurance contracts or on the addition of loss-making base insurance contracts to a group, it shall adjust the service margin for the contract in the relevant group of reinsurance contracts and recognize revenue on such contracts. The amount of loss settlement on a reinsurance contract is determined by multiplying the loss recognized on the base insurance contracts by the proportion of losses on the base insurance contracts that the entity expects to be settled on the reinsurance contract. This requirement applies only when the reinsurance contract is recognized before or at the same time as the loss recognition on the base insurance contracts.

- Other changes: Other changes include: scope exemptions for some credit card (or similar) contracts and some loan contracts; presentation of assets and liabilities under insurance contracts in portfolios rather than groups in the statement of financial position; introduction of risk mitigation options to reduce financial risks using reinsurance contracts and non-derivative financial instruments whose fair value changes through profit or loss; accounting policy choices for changes in accounting estimates in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts attributable to a specific policyholder under the terms of an insurance contract in the cash flows from the performance of contracts; elective exemptions from requirements during the transition period and other minor changes.

The Bank does not provide performance guarantees, joint agreements with insurance banks or other instruments that meet the definition of an insurance contract covered by IFRS 17.

## 5. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Amendments to IFRS 17 – Transitional opportunity for insurers when adopting IFRS 17 (published on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to the transition requirements to IFRS 17 provides insurers with an opportunity to improve the usefulness of information to investors regarding the initial application of IFRS 17. The amendment applies only to insurers' transition to IFRS 17 and does not affect any other requirements of IFRS. The transition requirements in IFRS 17 and IFRS 9 will be applied at different dates and will result in the following one-off differences in the classification of comparative information presented on initial application of IFRS 17: an accounting mismatch between insurance contract liabilities measured at present value and any related financial assets carried at amortised cost; If an entity elects to amend comparative information in accordance with IFRS 9, financial assets derecognised in the comparative period (IFRS 9 will not apply) and other financial assets (IFRS 9 will apply). This amendment will help insurers to avoid those temporary accounting inconsistencies and will consequently increase the usefulness of comparative information to investors. This will enable insurers to present comparative information about financial assets. An entity may apply the reclassification of such financial assets without retrospectively amending IFRS 9 for the purposes of presenting comparative information on initial application of IFRS 17. The transition option will be applied separately for each financial instrument; the entity will be required to present comparative information as if it were a financial instrument in accordance with IFRS 17.
It will allow the classification and measurement requirements of IFRS 9 to be presented as if they were applied to that financial instrument, but will not require the entity to apply the impairment requirements of IFRS 9.

In addition, the option requires an entity applying a classification adjustment to a financial asset to use reasonable and supportable information available at the date of transition to determine how to classify that asset in accordance with IFRS 9.

**Amendments to IAS 1 and IFRS 2:** Disclosures of Accounting Policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 1 require entities to disclose information about significant accounting policies, rather than significant accounting policies. The amendment defines significant accounting policies. In addition, the amendment states that accounting policies are material if, in the absence of such information, users of financial statements would not be able to understand other significant information in the financial statements. The amendment provides examples of accounting policies that may be considered material to an entity's financial statements. In addition, the amendment to IAS 1 states that disclosure of immaterial accounting policies is not required. However, if such information is disclosed, it should not preclude disclosure of significant accounting policies. To support this change, IFRS Implementation Guidance Document 2 ("Making Judgments About Materiality") has been amended to add guidance on the application of the materiality concept to accounting policy disclosures. These amendments have resulted in changes to the presentation of accounting policies that are not considered material, rather than reflecting them in the financial statements.

## 5. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

**Amendments to IAS 8:** Determining Accounting Estimates (published on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 8 clarify how entities should distinguish changes in accounting policies from changes in accounting estimates.

**Amendments to IAS 12** : Deferred Taxes on Assets and Liabilities Arising from a Single Transaction (published on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 clarify the accounting for deferred taxes on transactions such as leases and decommissioning obligations. In certain circumstances, entities are exempted from the obligation to recognise deferred tax when an asset or liability is initially recognised. Previously, there was some uncertainty as to whether this exemption applied to leases and decommissioning obligations, although an asset and a liability are recognised for both transactions. The amendments clarify that the exemption does not apply and that entities should recognise deferred tax on such transactions. The amendments to IAS 12 require entities to recognise deferred tax on transactions that give rise to temporary differences of equal amounts that increase and decrease the tax base on initial recognition. This change affected the presentation of deferred tax assets/liabilities by type (Note 20).

Amendments to IAS 12 “Income Taxes”: International Tax Reform – Pillar II Model Rules (published on 23 May 2023). In May 2023, the IASB issued limited amendments to IAS 12 (“Income Taxes”). These amendments were made in response to the imminent implementation of the Pillar II model rules published by the Organisation for Economic Co-operation and Development (OECD) as part of its international tax reform agenda. The amendments provide a temporary exemption from the requirement to recognise and disclose deferred taxes arising from tax legislation that is in force or has been substantially enacted that implements the Pillar II model rules. Entities may apply this exemption immediately, but the disclosure requirements are required for annual periods beginning on or after 1 January 2023.

Unless otherwise stated above, the application of these amendments did not have a significant impact on the Bank's financial statements.

## 6. NEW ACCOUNTING RULES

Some new standards and interpretations have been issued that are mandatory for annual periods beginning on or after January 1, 2024 and are not early adopted by the Bank.

Amendments to IFRS 16 (Leases) - Sale and Leaseback Obligations (published on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024). The amendments apply to sale and leaseback transactions that are required to be accounted for as sales in accordance with the requirements of IFRS 15. Under these amendments, a seller-lessee must subsequently measure the liabilities arising from the transaction in such a way that it does not recognise any income or loss relating to the right-of-use asset it retains. This implies deferring income even if there is an obligation to make variable lease payments that are not indexed or rate-dependent.

## 6. NEW ACCOUNTING RULES (continued)

Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, effective for annual periods beginning on or after 1 January 2024). These amendments clarify whether liabilities are classified as current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are classified as non-current if an entity has a substantive right to defer settlement of the liability for at least twelve months at the end of the reporting period. The new amendments no longer require that such a right be unconditional. Under the amendments made in October 2022, specific credit conditions that must be met after the reporting date do not affect the classification of a liability as current or non-current at the reporting date. Management's expectation that it will exercise its right to defer settlement of an obligation beyond the reporting period does not affect the classification of liabilities. A liability is classified as current if a condition is breached on or before the reporting period (even if the lender provides formal consent after the reporting period regarding the breach of that condition). If a condition of a loan agreement is breached after the reporting period, the loan is classified as non-current. In addition, the amendments provide classification requirements for liabilities that an entity can settle by converting to equity. 'Settlement' means that the liability is settled in cash, other resources embodying economic benefits or the entity's own equity instruments. The amendments provide an exception for instruments that are convertible into equity, but this exception applies only to financial instruments that have a conversion option that is classified as an equity instrument as a separate component of a combined financial instrument.

Amendments to IAS 7 "Statement of Cash Flows" and IFRS 7 "Financial Instruments: Disclosures: Supplier Financing Arrangements" (issued on 25 May 2023). In response to concerns raised by users of financial statements about incorrect or misleading disclosures of financing arrangements, the IASB amended IAS 7 and IFRS 7 in May 2023 to require entities to disclose information about supplier financing arrangements (SFA). These amendments require disclosures about supplier financing arrangements that will enable users of financial statements to assess the impact of those arrangements on the entity's liabilities and cash flows, as well as its exposure to liquidity risk. The additional disclosure requirements are intended to enhance the transparency of supplier financing arrangements. The amendments affect only the disclosure requirements, not the recognition or measurement principles. The new disclosure requirements will be effective for annual periods beginning on or after 1 January 2024.

IFRS 18 "Presentation and Disclosure in Financial Statements" (published on 9 April 2024 and effective for annual periods beginning on or after 1 January 2027). In April 2024, the IASB published IFRS 18, a new standard that addresses the presentation and disclosure of information in financial statements, particularly changes to the statement of profit or loss. IFRS 18 introduces key new concepts related to:

## 6. NEW ACCOUNTING RULES (continued)

- the structure of the profit or loss statement;
- disclosures required for certain profit or loss measures presented outside the financial statements (i.e., performance measures determined by management); and
- principles of improvement on aggregation and disaggregation applied to primary financial statements and records in general.

IFRS 18 will replace IAS 1, retaining many existing principles with limited changes.

This standard will not affect the recognition or measurement of items in financial statements, but may change the item “operating profit or loss” that entities report. The new standard is effective for reporting periods beginning on or after 1 January 2027 and will also be applied to comparative period information. Given that this change has just been published, the Bank believes that it is still early to assess its impact on the financial statements and will make the appropriate assessment at a later date.

Unless otherwise stated above, the new standards and interpretations are not expected to have a significant impact on the Bank's financial statements.

## 7. CASH AND CASH EQUIVALENTS

| | December 31, 2024 | December 31, 2023 |
|---|---|---|
| Cash | 3,400,229 | 4,117,570 |
| Balances in the CBRB | 35,411,953 | 42,061,470 |
| Correspondent accounts and overnight deposits in other banks: | | |
| In the Republic of Azerbaijan | - | 3,032 |
| In other countries | 33,198 | 50,567 |
| Depreciation | - | (15,674 ) |
| **Total cash and cash equivalents** | **38,845,381** | **46,216,965** |

The analysis of cash and cash equivalents by credit quality as of December 31, 2024 is shown in the following table:

| | Cash | Correspondent accounts | Total |
|---|---|---|---|
| ***Current and not impaired*** | | | |
| Cash | - | - | - |
| Balances in the CBRB | - | - | - |
| Correspondent accounts and overnight deposits in other banks: | - | - | - |
| In the Republic of Azerbaijan | - | **(16,171)** | **(16,171)** |
| In other countries | - | - | - |
| **Total current and not impaired** | | **(16,171)** | **(16,171)** |

The analysis of cash and cash equivalents by credit quality as of December 31, 2023 is shown in the following table:

| | **Cash** | **Correspondent accounts** | **Total** |
|---|---|---|---|
| ***Current and not impaired*** | | | |
| Cash | | - | |
| Balances in the CBRB | - | - | |
| Correspondent accounts and overnight deposits in other banks: | | | |
| In the Republic of Azerbaijan | - | | |
| In other countries | | (15,674) | (15,674) |
| **Total current and not impaired** | | **(15,674)** | (15,674) |

## 8. LOANS AND ADVANCES TO CUSTOMERS

| | **December 31, 2024** | **December 31, 202 3** |
|---|---|---|
| Individuals | 1,635,707 | 6,461,753 |
| Legal entities | 202,563 | 253,800 |
| **Loans and advances to customers (Total)** | **1,838,270** | **6,715,553** |
| Deferred commission income | ( 220 2) | -29,542 |
| Subtract: Allowance for loan impairment | (436,988) | (1,595,465) |
| **Loans and advances to customers (Net)** | **1,399,080** | **5,090,546** |

The fair value of total loans and advances to customers amounted to AZN 1,399,080 as of December 31, 2024 (December 31, 2023: AZN 5,090,546).

The movement of the Provision for impairment losses during 2024 and 2023 is as follows :

| | **December 31, 2024** | | | | **December 31, 2023** |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Total** |
| **Impairment/(recovery) provision as of January 1** | **319,093** | **510,549** | **765,823** | **1,595,465** | **-** |
| | 77,188 | 150,371 | 209,430 | 436,988 | - |
| Impairment during the year / ( recovery ) reserve | | | (924,000) | **(924,000)** | - |
| **Impairment/(recovery) provision as of December 31** | **396,281** | **660,920** | **51,253** | **1,108,453** | **-** |

## 8. LOANS AND ADVANCES TO CUSTOMERS (continued)

The breakdown of the loan portfolio by economic sectors is as follows :

| | 31 , 2024 | December 31, 2023 |
|---|---|---|
| **Loans granted to individuals and legal entities** | | |
| Consumer loans | 441,826 | 403,863 |
| Real estate purchase and renovation | 1,163,107 | 4,189,958 |
| Car | 68,275 | 1,669,732 |
| Trade and service-related loans | 165,062 | 246,982 |
| Construction | - | 205,018 |
| **Total loans and advances to customers** | **1,838,270** | **6,715,553** |

The Bank takes collateral against loans granted in accordance with the procedure established by the Management in order to keep credit risk to a minimum. The amount and type of collateral required depends on the assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptance of types of collateral and valuation parameters, and the valuation of collateral is carried out by an independent professional Bank.
The collateral obtained is mainly real estate, jewelry, and other assets.

IFRS 9 Financial Instruments supersedes IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. For detailed information on the Bank's application of this standard, please refer to Note 4 Summary of Significant Accounting Principles.

For information on credit risk on loans to customers, refer to Note 21 Financial Risk Management.

The carrying amount of each class of loans and advances to customers approximates their fair value as of December 31, 2024 and December 31, 2023.

## 9. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

| | December 31 , 2024 | December 31, 2023 |
|---|---|---|
| Short-term deposits in resident banks | 5,379,799 | 7,959,666 |
| Loans granted in non-resident banks | 33,198 | 0 |
| REPO transactions with corporate securities | 40,710,269 | 32,658,500 |
| **Due from banks and other financial institutions (Total)** | 46,123,266 | 40,618,166 |
| Subtract: Provision for impairment losses | (16,171) | (7,959,666) |
| **Due from banks and other financial institutions (Net)** | **46,107,094** | **32,658,500** |

The movement in the Provision for impairment losses to Financial Institutions during 2024 and 2023 is as follows:

| | December 31, 2024 | | | | December 31, 2023 |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Total** |
| **Impairment/(recovery) provision as of January 1** | | | **7,959,666** | **7,959,666** | **-** |
| Impairment during the year / ( recovery ) reserve | 641 | 15,530 | (5,700,000) | **(5,683,829)** | **-** |
| **Impairment/(recovery) provision as of December 31** | **641** | **15,530** | **2,559,666** | **2,275,837** | **-** |

## 10. PROPERTY, PLANT AND EQUIPMENT / INTANGIBLE ASSETS

| | Buildings and facilities | Furniture and equipment | Computer and communication equipment | Means of transport | Other assets | Total property, plant and equipment | Intangible assets | Total |
|---|---|---|---|---|---|---|---|---|
| **Initial cost as of January 1, 2022** | **3,181,920** | **14,491** | **27,247** | **9,984** | **56** | **3,233,698** | **157,740** | **3,391,438** |
| Additions | | 7,722 | 9,301 | | | 17,023 | 34,212 | 51,235 |
| Accumulated depreciation and amortization | (83,460) | (5,008) | (8,005) | -7,364 | -50 | -103,887 | -27,395 | -131,282 |
| **Carrying amount as of December 31, 2022** | **3,098,460** | **17,205** | **28,543** | **2,620** | **6** | **3,146,834** | **164,557** | **3,311,391** |
| Additions | | 3,887 | 3,699 | | | 7,586 | 41,933 | 49,519 |
| Depreciation and amortization charges | (83,460) | (6,043) | -8,259 | -2,620 | -6 | (100,388) | (30,840) | (131,228) |
| Deletions | | | | | | | | |
| **Carrying amount as of December 31, 2023** | **3,015,000** | **15,049** | **23,983** | **0** | **0** | **3,054,032** | **175,650** | **3,229,682** |
| Additions | | | 8400 | | | 8,400 | 32912 | |
| Depreciation and amortization charges | (83,460) | (6060.98) | (7977.71) | 0 | 0 | (97,499) | (35160) | -130,503 |
| Deletions | | | | | | | | |
| **Carrying amount as of December 31, 2024** | **2,931,540** | **8,988** | **24,405** | **0** | **0** | **2,964,933** | **173,403** | **3,140,491** |
| Original cost as of December 31, 2023 | 4,173,009 | 285,960 | 135,018 | 89,410 | 18,347 | 4,701,744 | 403,181 | 5,104,925 |
| Accumulated depreciation and amortization | (1,158,009) | (270,911) | (111,035) | (89,410) | (18,347) | (1,647,712) | (227,531) | (1,875,243) |
| **Carrying amount as of December 31, 2023** | **3,015,000** | **15,049** | **23,983** | **0** | **0** | **3,054,032** | **175,650** | **3,229,682** |
| Initial cost as of December 31, 2024 | 4,173,009 | 285,960 | 143,418 | 89,410 | 18,347 | 4,710,144 | 436,093 | 5,146,237 |
| Accumulated depreciation and amortization | (1,241,469) | (276,972) | (119,013) | (89,410) | (18,347) | (1,745,211) | (262,690) | (2,007,901) |
| **Carrying amount as of December 31, 2024** | **2,931,540** | **8,988** | **24,405** | **0** | **0** | **2,964,933** | **173,403** | **3,138,336** |

## 11. OTHER ASSETS

| | 31 , 2024 | December 31, 2023 |
|---|---|---|
| **Financial assets:** | | |
| Other assets | 80,375 | 464,636 |
| Additional tax amount paid on tax | 41,400 | - |
| **Total other assets** | **953,200** | **464,636** |

## 12. DEBT TO BANKS AND OTHER FINANCIAL INSTITUTIONS

| | December 31 , 2024 | December 31 , 2023 |
|---|---|---|
| Liabilities to Azerbaijani banks | 137 | 137 |
| Liabilities to foreign banks | 16,749,256 | 19,239,567 |
| Liabilities to other financial institutions | 1,643 | 1643 |
| **Total debts to banks and other financial institutions** | **16,751,036** | **19,241,347** |

As of December 31, 2024, the Bank's liabilities to other banks and financial institutions are mainly liabilities under the contract concluded with "Bank Melli Iran Head Office" and there was a 13% decrease in 2024 compared to 2023.

## 13. SHARE CAPITAL

| | Statute | Total |
|---|---|---|
| **As of December 31, 2023** | **73,611,171** | **73,611,171** |
| Increase in the statute | - | |
| **As of December 31, 2024** | **73,611,171** | **73,611,171** |

No changes were observed in the Bank's charter as of December 31, 2024.

## 14. INTEREST INCOME

| | For the year ending December 31, 2024 | For the year ended December 31, 2023 |
|---|---|---|
| **Interest income** | | |
| **Interest income on loans and advances to financial institutions** | 4,588,430 | 2,868,769 |
| Interest income on loans and advances to customers | 994,572 | 301,876 |
| **Total interest income** | **5,583,002** | **3,170,645** |
| **Interest expenses** | | |
| Interest expenses on funds received from banks and other financial institutions | (286) | (40,148) |
| **Total interest expense** | (286) | (40,148) |
| **Net interest income** | **5,582,716** | **3,130,497** |

## 15. FEE AND COMMISSION INCOME AND EXPENSES

| | For the year ending December 31, 2024 | For the year ended December 31, 2023 |
|---|---|---|
| **Fee and commission income:** | | |
| Fee and commission income from other services | 101,815 | 9,987 |
| Income from settlement operations | 55 | 20,644 |
| Income from cash transactions | 353 | 22,605 |
| **Total fee and commission income** | **102,223** | **53 , 236** |
| **Fees and commission costs:** | | |
| On cash transactions | (2,260) | (5,034) |
| On settlement transactions | (1,249) | (83,350) |
| Fees and commission expenses for other services | (193,174) | (7,455) |
| **Total fees and commission expenses** | **(196,683)** | **(95,839)** |
| **Net commission income / ( expenses)** | **(94,360)** | **(42,603)** |

## 16. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

| | For the year ending December 31, 2024 | For the year ended December 31, 2023 |
|---|---|---|
| Employee expenses | 948,699 | 1,005,939 |
| Depreciation and amortization expense | 91,345 | 131,228 |
| Transportation costs | 9,081 | - |
| Software cost | 55,500 | - |
| Professional services | 89,670 | 20,741 |
| Communication costs | 114,732 | 113,647 |
| Advertising costs | 1,737 | 1,486 |
| Security costs | 95,179 | - |
| Membership fee | 1,806 | 10,278 |
| Other expenses | 764,812 | 831,418 |
| **Total administrative and other operating expenses** | **2,172,561** | **2,114,737** |

## 17. NET GAIN/(LOSS) ON FOREIGN CURRENCY TRANSACTIONS

Income from foreign currency transactions, net of losses, was as follows:

| | For the year ending December 31, 2024 | For the year ended December 31, 2023 |
|---|---|---|
| Dealing operations, net | 13,821 | 130,197 |
| Yen revaluation of currency balances, net | (66,989) | 88,501 |
| **Total net foreign exchange gain /( loss)** | **(53,168)** | **218,698** |

## 18. PROFIT TAX

Income tax expense consists of the following components:

| | For the year ending December 31, 2024 | For the year ended December 31, 2023 |
|---|---|---|
| Current tax expense | (1,567,697) | (489,552) |
| Deferred tax income / (expence) | (320,711) | 13,550 |
| **Total income tax expense** | **(1,888,408)** | **(476,002)** |

The bank's profit is subject to income tax at a rate of 20% (2024: 20%).

The Bank calculates taxes based on tax reports and records prepared in accordance with the tax legislation of the Republic of Azerbaijan, and these calculations may differ from International Financial Reporting Standards.

Tax differences arise due to the exemption of expenses and income from profit tax, which are determined by legislation.

Deferred taxes represent the net tax effect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their tax bases. As of December 31, 2024, temporary differences arose primarily from the recognition of income and expenses.

The relationship between accounting profit and income tax expense as of December 31, 2024 and 2023 is explained as follows:

| | For the year ending December 31, 2024 | For the year ended December 31, 2023 |
|---|---|---|
| Profit before tax | 9,645,330 | 719,483 |
| Tax base | 20% | 20% |
| Tax expense calculated according to the tax base | (1,567,697) | (143,897) |
| Other temporary differences affecting the tax base | (320,711) | (332,105) |
| **Income tax expense** | **(1,888,408)** | **(476,002)** |
| Current income tax expense | (1,567,697) | (143,897) |
| Changes in deferred tax liabilities | (320,711) | (332,105) |
| **Income tax expense** | **(1,888,408)** | **(476,002)** |

| | December 31, 2024 | December 31, 2023 |
|---|---|---|
| Deferred tax asset at the beginning of the year | (228,134) | 103,971 |
| Deferred tax income /( expense) | (320,711) | (332,105) |
| **Deferred tax asset at year-end** | **(548,845)** | **(228,134)** |

## 19. RISK MANAGEMENT

Risk management within the Bank is carried out in relation to financial (credit, market, geographical, currency, liquidity and interest rate risks), operational and legal risks. The main objective of the financial risk management function is to set risk limits and to comply with these limits. The aim of operational and legal risk management is to ensure that internal rules and procedures designed to mitigate these risks are followed in an appropriate manner .

**Internal audit**

The internal audit function conducts an annual audit of the Bank's risk management processes, and
Internal Audit verifies the adequacy of procedures and the Bank's compliance with the procedures. Internal Audit is responsible for all
discusses the results of the assessments with management and reports the findings and recommendations to the Audit
Reports to his/her department.
The bank's risks include both the expected loss under normal circumstances and the maximum loss based on statistical models.
using the method reflecting unexpected losses, which is an assessment of actual losses
is measured. In order to increase the efficiency of the audit and coordinate the audit efforts, some information was obtained from the Internal Audit Department. During the audit process, the reports of the Internal Audit Department were obtained and reviewed, and no significant deviations that would affect the financial statements were identified.
Risk management within the bank includes financial risks (credit, market, geographical, currency, liquidity and interest
rate risks), operational and legal risks.
The main objective of the financial risk management function is to set risk limits and ensure compliance with these limits. The objective of operational and legal risk management is to ensure that internal rules and procedures designed to mitigate these risks are followed in an appropriate manner.

**Credit risk** . The Bank is exposed to credit risk when one party to a financial instrument fails to meet its obligation and causes a financial loss to the other party. Credit risk arises from the Bank's credit and other transactions with counterparties that give rise to financial assets.

The Bank is exposed to credit risk when one party to a financial instrument fails to meet its obligation and causes a financial loss to the other party. Credit risk arises from the Bank's credit and other transactions with counterparties that give rise to financial assets.

The mechanism of GKZ calculations is described below and its main elements are:

| | |
|---|---|
| DE | The probability of default is an assessment of the likelihood of default around a certain point in time. A default can only occur at a certain point in time during the analyzed period if the relevant funds have not been previously written off and are still included in the portfolio. |
| DHRH | The exposure at default is an estimate of the exposure at a future default date, taking into account the expected change in exposure after the reporting date, including the repayment of principal and interest, expected disbursements on the loan commitment, and accrued |

| | |
|---|---|
| | interest on outstanding payments, whether contractually agreed or not. |
| DHZ | Loss given default is an estimate of the loss that would occur if a default were to occur at a given time. It is based on the difference between the contractually agreed-upon amount to be paid and the amount the lender expects to receive. It is usually expressed as a percentage of the EGR rate. |

In its GKZ models, the Bank relies on a wide range of forecast data, such as economic indicators integrated into assessments of credit risk components. Impairment losses and write-downs are accounted for and disclosed separately from modification losses, which are accounted for as adjustments to the gross carrying amount of the financial asset.
The Bank considers that credit risk has increased significantly when the credit rating has deteriorated significantly since initial recognition. The level of significant deterioration varies from segment to segment and varies between Stage 2 and 3 or within a specified range. The Bank also applies a Stage 2 qualitative approach to trigger a significant increase in credit risk on an asset, such as placing a customer/facility on a watch list or placing an account on hold. Regardless of the change in credit rating, credit risk is considered to have increased significantly since initial recognition if contractual payments are more than 30 days past due.
If the borrower is 90 days past due on contractual payments, depending on the terms of the contract, the Bank considers the financial instrument to be in default and therefore Stage 3 (credit impairment) has occurred for the purposes of the GKZ calculations. The Bank considers its cash and interbank balances to be in default when payments due during the day are not made due to the close of business day as specified in individual contracts and takes immediate action. As part of its qualitative assessment of whether a customer is in default,
The Bank calculates the LTV on an individual basis for non-performing assets, significant assets with credit impairment factors and certain assets with significant credit risk factors. The Bank calculates the LTV for all other asset classes on an aggregate basis for groups of homogeneous borrowers based on a combination of internal and external characteristics of the loans.
The allowance for credit losses is based on the expected credit losses that are incurred over the life of the asset. However, in cases where there has been no significant increase in credit risk since the allowance was made, it is based on 12-month expected credit losses. 12aECL consists of ECLs that arise from the failure to meet obligations on financial instruments that are possible within 12 months after the reporting date.
At the end of each reporting period, the Bank has implemented a policy of assessing whether the credit risk of a financial instrument has increased significantly since initial recognition by reviewing changes in the risk of default over the remaining life of the financial instrument. Based on the above process, the Bank's loans are classified as follows:

| | |
|---|---|
| Stage 1: | When loans are first recognized, the Bank recognizes an allowance based on a 12-month ECL. Stage 1 loans also include assets that have decreased credit risk and have been reclassified from Stage 2. |
| Stage 2 : | The Bank recognizes an allowance for impairment losses when the credit risk has increased significantly since the loan was originated. Stage 2 loans also include assets that have decreased credit risk and have been classified as Stage 3. |
| Stage 3 : | Loans considered impaired. The Bank recognizes a provision for impairment losses. |
| AYKD : | Acquired or originated credit-impaired financial assets (ICLs) are financial assets that are credit-impaired at initial recognition. ICLs are initially recognized at fair value and interest income is subsequently recognized based on the adjusted ECL. ICLs are only recognized or reversed when there is a subsequent change in expected credit losses. |

In accordance with the Credit Policy approved by the Bank's management, certain limits have been set on the loan portfolio to ensure diversification and reduction of possible credit risks.

These limits are shown below:

1. Limits on business and consumer loan portfolio;
2. Limits on economic sectors;
3. Limits by region;
4. Concentration limits; and
5. Limits by type of collateral

Management regularly monitors compliance with all limits and some limits ( maximum amount of loans granted to one borrower or group of related borrowers and maximum amount of loans granted to related parties) are reviewed before any new loan is granted .

In addition, the Central Bank of the Republic of Azerbaijan sets certain limits that are mandatory for all financial banks operating in the country and regularly monitors these limits .

Credit risk management is an integral part of the Bank's operations. The risk management function covers all stages of the credit process, from the issuance and approval of loans to their repayment.

The Bank 's credit policy regulates the duties and authorities of each employee of the Bank involved in the process of granting loans, as well as determines the limits for granting loans, rules for controlling loans, the principles of the rating system applied by the Bank, and the procedures for granting loans .

***Loan approval procedure and definition of authorities.*** The loan approval process is carried out in accordance with the procedures stipulated in the Bank's Credit Policy. Loan approval authorities are determined within the limits approved by the Bank's Management for each business unit.

***Credit approval authority.*** Before granting loans, the Bank conducts a detailed assessment of potential borrowers. This analysis is based on the potential borrower's financial condition, market position, type and value of collateral provided to secure the loan, as well as credit history .

Monitoring of loans is carried out regularly throughout the entire term of the loan, taking into account the Bank's internal risk rating for the borrower. When the loan is overdue, it will be collected using the means specified in the terms and conditions of the Loan Agreement, the Loan Agreement, the Collateral Agreement and the laws and the Civil Code of the Republic of Azerbaijan. In the event of a delay in payments, the Loan Officer will thoroughly analyze the situation and contact the borrower to immediately prevent this situation. The Loan Officer will then prepare a report on these delayed payments, which will be sent to the Bank's Credit Committee for review, consideration and preparation of instructions on corrective measures by the Loan Officer. The Credit Committee reviews the loan on a monthly basis and discusses other additional measures. Since interest payments on the majority of loans are made monthly, this allows the Bank to obtain additional information about the borrower's financial situation.

The Bank intends to obtain collateral (real estate, fixed assets, current assets, securities, etc.) for loans above the approved limit. The valuation of the collateral is carried out by an independent professional Bank.

***Market risk.*** The Bank is exposed to market risks related to open positions in (a) currency (b) interest rates and (c) equity instruments, which are subject to general and specific changes in the market .

***Foreign currency risk.*** The Bank is exposed to foreign currency risk due to the impact on its financial position and cash flows of changes in foreign exchange rates against the Azerbaijani manat. The Credit Committee sets limits for each currency and the level of risks in general at the end of the day, as well as within a day, and monitors these limits on a daily basis . The Bank does not conduct transactions with any derivative instruments for speculative activities or hedging purposes. Such instruments are not widely used in the Republic of Azerbaijan.

## 20. Foreign exchange risk

| | December 31, 2024 | | | December 31, 2023 | | |
|---|---|---|---|---|---|---|
| | **Monetary financial assets** | **Monetary financial obligations** | **Position** | **Monetary financial assets** | **Monetary financial obligations** | **Position** |
| AZN | 4,831,266 | 2,007 | 4,829,259 | 9,826,689 | 2,020 | 9,824,669 |
| US dollar | 2,648,134 | 2,995,576 | (377,442) | 2,149,845 | 3,044,858 | (895,013) |
| Euro | 31,966,767 | 13,753,453 | 18,213,314 | 33,724,978 | 16,194,468 | 17,530,510 |
| **Total** | **39,446,167** | **16,751,036** | **22,665,131** | **45,701,512** | **19,241,346** | **26,460,166** |

The above table includes only monetary assets and liabilities. The Bank believes that investments in equity instruments and non-monetary assets do not give rise to significant currency risk. The currency position is positive at AZN 22,665,131, indicating that the currency risk is likely to be minimal in the future.

***Interest rate risk .*** The Bank is exposed to the risk that changes in market interest rates will affect its financial position and cash flows. Such changes may increase interest margins, but they may also decrease or result in losses if unexpected changes in interest rates occur. Management sets limits on the acceptable level of interest rate fluctuations and monitors these limits on a daily basis. The following table provides a general analysis of the Bank’s exposure to interest rate risk:

| | December 31 , 2024 | | December 31 , 202 3 | |
|---|---|---|---|---|
| | **Interest rate 1%** | **Interest rate -1%** | **Interest rate 1%** | **Interest rate -1%** |
| **Assets:** | | | | |
| Loans and advances to customers | 13,991 | ( 13,991 ) | 50,905 | (50,905) |
| **Commitments:** | | | | |
| Debts to banks and other financial institutions | 167,510 | (167,510) | 192,413 | (192,413) |
| **Net impact on profit before tax** | **181,501** | **(181,501)** | **243,318** | **(243,318)** |

The Bank monitors interest rates on its financial instruments. The interest rates based on reports analyzed by the Bank's management are shown in the table below:

| | December 31 , 2024 | | | December 31, 2023 | | |
|---|---|---|---|---|---|---|
| **Annual %** | **AZN** | **US dollar** | **Other** | **AZN** | **US dollar** | **Other** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Loans and advances to customers | 8-29% | - | - | 8-29% | | - |
| Loans and advances to banks and financial institutions | 5-6% | 0-1% | | 1-6% | 0-1% | |
| **Commitments** | | | | | | |
| Debts to banks and other financial institutions | 0-1% | 0-1% | - | 0-1%- | 0-1% | - |

***Geographic risk.*** The geographical analysis of the Bank's financial assets and liabilities as of December 31, 2024 is as follows :

| | **Republic of Azerbaijan** | **CIS and other foreign countries** | **Total** |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 4,831,266 | 33,997,944 | **38,829,210** |
| Loans and advances to customers | 1,399,080 | **-** | **1,399,080** |
| Other financial assets | 43,798,059 | 33,198 | **43,831,257** |
| **Total assets** | **50,028,405** | **34,031,142** | **84,059,547** |
| **Commitments** | | | |
| Debts to banks and other financial institutions | (479) | (16,750,557) | **(16,751,036)** |
| Subordinated debt obligations | **-** | (15,951,600) | **(15,951,600)** |
| Other financial liabilities | - | - | - |
| **Total liabilities** | **(479)** | **(32,702,157)** | **(32,702,636)** |
| **Net position on balance sheet** | **50,027,926** | **1,328,985** | **51,356,911** |

***Other risk concentrations.*** Management monitors and discloses credit risk concentrations based on reports reflecting information on borrowers whose total loans exceed 10% of net assets. The Bank did not have any significant risk concentrations as of December 31, 2024 and 2023.

***Liquidity risk*** . Liquidity risk is the risk that the Bank will encounter difficulties in meeting its obligations arising from its financial liabilities. This includes the availability of sufficient funds to meet withdrawal requests for deposits and to meet other financial obligations under financial instruments that are actually due. Liquidity risk arises when the maturity of transactions on assets does not match the maturity of transactions on liabilities. In the opinion of the Bank's Management, the compatibility and/or controlled mismatch of the maturities and interest rates of assets and liabilities are key factors in the management of financial Banks.

In order to manage liquidity risks, the Bank monitors the expected future cash flows on the banks' operations on a daily basis as part of the asset/liability management process.

The Bank's liquidity policy consists of the following:

- Forecasting cash flows and maintaining the necessary level of liquid assets to ensure liquidity over various time frames;
- Preparation of a financial plan in line with the strategic goals of the bank;

- Maintaining diverse funding sources and thus increasing the Bank's ability to borrow from domestic and external sources;
- Maintaining highly liquid and high-quality assets;
- Aligning the product base with available funding sources within the timeframes;
- Constant monitoring of the structure of assets and liabilities within time frames.

The maturity profile of assets and liabilities and the matching of interest rates for the management of the Bank's liquidity are organized at least in proportion to the maintenance of the adequacy of the liquidity ratio. It should be noted that, in the opinion of the Bank's Management, the maturity profile of assets and liabilities for the management of the Bank and the matching and/or controlled mismatch of interest rates are key factors for liquidity management.

Considering that in many cases, liquidity management indicators and full compliance of these indicators may not be ensured in Banks. Thus, operations on assets and liabilities in Banks are often carried out for an indefinite period and have a different nature. Inadequacy of the liquidity ratio on these indicators can potentially increase profitability, but at the same time increase the risk of losses.

Management believes that the risks arising from liquidity mismatches are significantly reduced as a result of the favorable macroeconomic conditions for financial institutions operating in Azerbaijan, positive cash inflows, profitability of operations, and the use of available financial resources when required .

## 19. CAPITAL MANAGEMENT

The Bank's goal in managing capital is to ensure compliance with the requirements set by the CBAR regarding the amount of capital and to maintain a sufficient capital base for the Bank to operate as a going concern.

## 20. CONTINGENT OBLIGATIONS

***Legal proceedings .*** With respect to claims that may be brought against the Bank from time to time and in the ordinary course of business, the Bank's Management, based on its own estimates, as well as advice from internal and external professionals, believes that no material loss will occur in connection with these claims and accordingly no provision has been made in these financial statements.

***Tax legislation.*** Azerbaijani tax, currency and customs legislation is subject to various interpretations and changes that may occur frequently. Management's interpretations of such legislation as applied to the Bank's operations and activities may be challenged by the relevant state tax authorities.

Recent developments in the Republic of Azerbaijan indicate that tax authorities may take a more stringent stance when interpreting legislation and determining the amount of taxes, and may review transactions and activities that were previously unchallenged. As a result, the Bank may be assessed significant additional taxes, penalties and interest. Tax authorities may audit the taxpayer's activities for no more than the last three calendar years. In special cases specified by law, the audit may cover longer periods.

***Capital expenditure commitments.*** As of December 31, 2024 and December 31, 2023, the Bank had no capital expenditure commitments related to its equipment.

## 21. VALUE OF FINANCIAL INSTRUMENTS

Fair value reflects the amount for which a financial instrument could be exchanged in a current transaction between willing parties, except in a forced sale or liquidation, and is best evidenced by an active market price .

The estimated fair value of financial instruments has been determined by the Bank using available market data (if available) and appropriate valuation techniques. However, professional judgment is required when interpreting market data to determine the estimated fair value. The Republic of Azerbaijan exhibits characteristics of an emerging market economy, but economic conditions continue to limit the volume of activity in financial markets. Market prices may be outdated or reflect the value of sales at low prices and therefore may not reflect the fair value of financial instruments. Management uses all available market data when determining the fair value of financial instruments.

The Bank uses the following valuation levels to disclose the fair value of financial instruments with certain valuation techniques:

- **Level 1:** The fair value of financial instruments (derivatives traded in an active market, trading and marketable securities, etc.) is based on quoted market prices at the end of the reporting period. The market price used for financial assets held by the Bank reflects the current bid price. These instruments are included in Level 1.

- **Level 2:** The fair value of financial instruments that are not quoted in an active market (over-the-counter derivatives) is determined using valuation techniques that rely less on the entity's estimates and, to the extent possible, are based on observable market data. An instrument is classified as Level 2 if all of the relevant observables for which a fair value instrument is measured are available.

- **Level 3:** If one or more significant factors cannot be based on observable market data, this financial instrument is classified as Level 3. This is intended for unlisted securities.

  The following table analyses financial instruments at fair value, determined by level of the fair value hierarchy:

| | December 31, 2024 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets** | | | | |
| Cash and cash equivalents | 38,829,210 | - | - | **38,829,210** |
| Loans and advances to customers | - | 1,399,080 | - | **1,399,080** |
| Other financial assets | - | - | 43,831,257 | **43,831,257** |
| **Total financial assets** | **38,829,210** | **1,399,080** | **43,831,257** | **84,059,547** |
| **Financial obligations** | | | | |
| Debts to banks and other financial institutions | - | - | **(16,751,036)** | **(16,751,036)** |
| Subordinated debt obligations | - | **(15,951,600)** | - | **(15,951,600)** |
| Other financial liabilities | - | - | - | - |

| | | | | |
|---|---|---|---|---|
| **Total financial liabilities** | **-** | **(15,951,600)** | **(16,751,036)** | **(32,702,636)** |

## 22. RELATED PARTY TRANSACTIONS AND BALANCE SHEETS

Parties are considered related if they are under the control of the same group or if one of them can control the other or exercise significant influence over the other in making decisions regarding financial and economic activities. When considering relationships between related parties, attention is paid to the economic substance of those relationships, not the legal form. In 2024, there were no cases of violation of the requirements of the Central Bank of Armenia on transactions with related parties.

## 23. EVENTS AFTER THE REPORTING PERIOD

As a result of the revaluation of property, plant and equipment conducted by the appraisal company during the reporting period, our opinion has been adjusted taking into account the changes in accounting under IAS 10.

## 24. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by management on February 27, 2025.