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THE POWER OF BEING UNDERSTOOD

"CITY FINANCE NBCO" LLC
Financial statements together with
Independent auditor's report

Year ended December 31, 2024

Contents

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

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out (on page 1 of report) is made with a view to distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the financial statements of "City Finance NBCO" LLC (the "Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at December 31, 2024 the result so fits operations, cash flows and changes in equity for the year ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records incompliance with legislation and accounting standards of the countries where Company's entities operate;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended December 31, 2024 were authorized for issue on May 15, 2025 by the Management of the Company.

On behalf of the Management:

Tural Ahmadov Director	Elvira Babayeva Chief accountant

AZƏRBAYCAN RESPUBLİKASI Məhdud Məsuliyyətli Cəmiyyəti Bank Olmayan Kredit Təşkilatı CİTY FİNANCE Limited Liability Company AZERBAIJAN REPUBLIC

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INDEPENDENT AUDITOR`S REPORT

To the Management and the Board of Trustees of "City Finance NBCO" LLC

Opinion

We have audited the financial statements of "City Finance NBCO" LLC (the "Company"), which comprise the statement of financial position at year ended December 31, 2024 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes in accordance with IFRS Accounting Standarts.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at year ended December 31, 2024 and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standarts.

Basis for Opinion

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

Responsibilities of Management Board and the Board of Trustees for the Financial Statements

Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as Management Board 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 Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Management Board and Board of Trustees is responsible for overseeing the Company's financial reporting process.

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Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of Management Board'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

May 15, 2025

Baku, Azerbaijan Republic

RSM Azerbaijan

"CITY FINANCE NBCO" LLC
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2024
(Amounts presented are in Azerbaijani manats, unless otherwise stated)

	Notes	December 31, 2024	December 31, 2023
Assets			
Cash and cash equivalents	7	327,394	274,368
Loans and leasings to customers	8	29,127,672	24,202,456
Property and equipments	9	68,698	44,695
Intangible asset	9	82,698	91,874
Right of use assets	10	174,055	261,321
Deferred tax assets	20	84,566	51,241
Other assets	11	723,712	654,600
Total assets		**30,588,795**	**25,580,555**
Equity			
Charter capital	16	5,000,000	5,000,000
Retained earnings		10,220,366	7,658,660
Total equity		**15,220,366**	**12,658,660**
Liabilities			
Term borrowings	12	6,567,783	3,909,387
Amounts due to related parties	13	6,390,572	8,344,402
Debt securities in issue	14	1,841,223	-
Current income tax liability		148,652	82,768
Lease liability	10	233,282	331,610
Other liabilities	15	186,917	253,728
Total liabilities		**15,368,429**	**12,921,895**
Total equity and liabilities		**30,588,795**	**25,580,555**

Approved for issue and signed on behalf of the Management on May 15, 2025.

AZƏRBAYCAN RESPUBLİKASI Məhdud Məsuliyyətli Cəmiyyəti Bank Olmayan Kredit Təşkilatı CİTY FİNANCE Limited Liability Company AZERBAIJAN REPUBLIC

Tural Ahmadov
Director

Elvira Babayeva
Chief accountant

The notes set out on pages 5 to 40 form an integral part of these financial statements.

	Notes	For the year ended December 31, 2024	For the year ended December 31, 2023
Interest income	17	7,171,830	6,249,817
Interest expense	17	(638,527)	(322,652)
Net margin on interest income		**6,533,303**	**5,927,165**
Expected credit loss charge	8	(516,982)	(782,130)
Net margin on interest income after expected credit loss charge		**6,016,321**	**5,145,035**
Administrative and other operating expenses	18	(2,580,926)	(1,765,502)
Fee and commission expenses	19	(248,602)	(136,527)
Foreign exchange translation loss,net		(5,841)	(2,970)
Profit before income tax		**3,180,952**	**3,240,036**
Corporate income tax expense	20	(619,246)	(689,213)
Profit for the year		**2,561,706**	**2,550,823**
Total comprehensive income for the year		**2,561,706**	**2,550,823**

Approved for issue and signed on behalf of the Management on May 15, 2025.

Tural Ahmadov
Director

AZƏRBAYCAN RESPUBLİKASI
Məhdud Məsuliyyətli Cəmiyyəti
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Limited Liability Company
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Elvira Babayeva
Chief accountant

	Charter capital	Retained earnings	Total equity
As at December 31, 2022	**5,000,000**	**5,107,837**	**10,107,837**
Total comprehensive income for the year	-	2,550,823	2,550,823
As at December 31, 2023	**5,000,000**	**7,658,660**	**12,658,660**
Total comprehensive income for the year	-	2,561,706	2,561,706
As at December 31, 2024	**5,000,000**	**10,220,366**	**15,220,366**

Approved for issue and signed on behalf of the Management on May 15, 2025.

Tural Ahmadov
Director

AZƏRBAYCAN RESPUBLİKASI
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Limited Liability Company
AZERBAIJAN REPUBLIC

Elvira Babayeva
Chief accountant

"CITY FINANCE NBCO" LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024
(Amounts presented are in Azerbaijani manats, unless otherwise stated)

	Notes	For the year ended December 31, 2024	For the year ended December 31, 2023
Cash flows from operating activities			
Profit before income tax		**3,180,952**	**3,240,036**
Adjustment for non-cash items:			
Expected credit loss charge	8	516,982	782,130
Depreciation and amortization	9	20,569	11,201
Depreciation of right of use assets	10	87,266	87,027
Interest expense	17	638,527	322,652
Interest income	17	(7,171,830)	(6,249,817)
Foreign exchange translation loss, net		5,841	2,970
Cash flows used in operating activities before changes in operating assets and liabilities		**(2,721,693)**	**(1,803,801)**
Increase in loan and leasings to customers	8	(5,091,765)	(822,784)
Decrease/ (increase) in other assets	11	(69,112)	539
Increase in other liabilities	15	(66,811)	162,197
Net cash used in operating activities before tax		**(7,949,381)**	**(2,463,849)**
Income tax paid		(586,687)	(1,027,992)
Interest expense paid on lease liability	10	(27,979)	(37,278)
Interest expense paid on term borrowing	12	(408,748)	(288,096)
Interest expenses paid on bonds issued	14	(192,841)	-
Interest received		6,821,397	5,808,633
Net cash (used in)/ from operating activities		**(2,344,239)**	**1,991,418**
Cash flows from investing activities			
Acquisition of properties and equipment	9	(35,396)	(21,493)
Acquisition of intangible assets	9	-	(60,789)
Net cash used in investing activities		**(35,396)**	**(82,282)**
Cash flows from financing activities			
Proceeds from term borrowings	12	6,102,937	2,079,950
Repayment of term borrowings	12	(3,450,277)	(117,264)
Issuance of debt securities	14	2,003,000	-
Reayment of debt securities	14	(165,000)	-
Repayment amounts due to related parties	13	(1,953,830)	(3,708,155)
Principal paid on lease liability	10	(98,328)	(74,869)
Net cash from / (used) financing activities		**2,438,502**	**(1,820,338)**
Effect of exchange rate changes on the balance of cash held in foreign currencies		(5,841)	(192)
Net increase in cash and cash equivalents		**53,026**	**88,606**
Cash and cash equivalents at the start of the year	7	**274,368**	**185,762**
Cash and cash equivalents at the end of the year	7	**327,394**	**274,368**

Approved for issue and signed on behalf of the Management on May 15, 2025.

AZƏRBAYCAN RESPUBLİKASI Məhdud Məsuliyyətli Cəmiyyəti Bank Olmayan Kredit Təşkilatı CİTY FİNANCE Limited Liability Company AZERBAIJAN REPUBLIC

Tural Ahmadov
Director

Elvira Babayeva
Chief accountant

The notes set out on pages 5 to 40 form an integral part of these financial statements.

1. Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended December 31, 2024 for "City Finance NBCO" LLC("the Company").

The Company was incorporated and is domiciled in the Republic of Azerbaijan. The Company is an closed joint stock company and was set up in accordance with Azerbaijani regulations CJSC.

Ownership structure of the Company

Company is wholly owned by shareholders. The shareholders of the Company are as follows:

	December 31, 2024		December 31, 2023	
	%	Amount	%	Amount
"AGA Group of Companies" CJSC	72.5	3,625,000	72.5	3,625,000
Habib Zadeh Mohammad Reza Parviz	27.5	1,375,000	27.5	1,375,000
Total share capital	**100**	**5,000,000**	**100**	**5,000,000**

Principal activity

The Company's principal business activity is lending operations within the Republic of Azerbaijan. The Company was registered by the Ministry of Taxes of the Republic of Azerbaijan on October 03, 2013 under the name "City Finance NBCO" LLC and the immediate owner and ultimate controlling party of the Company is Demirchi family. The Company has been operating on the basis of license No. BKT-20 issued by the Central Bank of the Republic of Azerbaijan ("CBAR") since January 7, 2014.

The Company had 76 employees at December 31, 2024 (2023: 67employees).

Registered address and place of business

The Company's registered address is: Khatai district, Khocali 37, AZ1025, Baku, the Republic of Azerbaijan.

The Company's place of business is: The Demirchi Tower, 15th floor, Khocali 37, AZ 1025, Baku, the Republic of Azerbaijan.

Presentation currency

These financial statements are presented in Azerbaijani Manats ("AZN"), unless otherwise stated.

2. Operating environment of the company

Azerbaijan's economy, like many emerging markets, continues to be influenced by global economic conditions, government policies, and fluctuations in energy prices. While the country remains focused on economic diversification, maintaining stability in key sectors is crucial for long-term growth. The future trajectory of Azerbaijan's economy largely depends on the effectiveness of fiscal and monetary policies, as well as crude oil prices and the stability of the national currency.

In 2024, Azerbaijan's GDP reached AZN 126.3 billion (USD 74.3 billion), reflecting a 2.7% growth compared to the previous year. Throughout 2024, economic performance was shaped by both external and domestic factors. Although fluctuations in global commodity prices and geopolitical uncertainties presented challenges, Azerbaijan benefited from a favorable trade environment. The country maintained a strong foreign trade turnover, recording a trade surplus of USD 5.5 billion in 2024.

Strategic foreign exchange reserves saw a notable increase, reaching USD 10.9 billion by November 2024, surpassing internationally recognized sufficiency levels and reinforcing the stability of the Azerbaijani manat.

2. Operating environment of the company (continued)

The Central Bank of Azerbaijan continued its efforts to manage inflation and ensure macroeconomic stability. In 2023, the annual inflation rate stood at 9.5%, but by the end of 2024, inflation had eased to 4.9%, aligning with the Central Bank's target range of 4±2%. Key price changes included a 5.5% increase for food, 2.4% for non-food products, and 6.3% for services. To further support price stability, the refinancing rate was adjusted to 7.25% by the end of 2024, down from 8% in 2023.

International credit rating agencies continued to assess Azerbaijan's economic outlook. In 2023, Fitch and S&P assigned a "BB+" rating to Azerbaijan, while Moody's maintained a Ba1 rating. In 2024, these assessments reflected stronger confidence in Azerbaijan's fiscal policies and external balances. "Fitch Ratings" upgraded Azerbaijan to BBB–, citing sound fiscal management and positive economic fundamentals. Moody's revised its outlook to "positive" (Ba1, "positive"), while S&P reaffirmed its BB+/B rating with a stable outlook.

Despite these positive economic indicators, uncertainties remain. External risks, including fluctuations in global energy prices, geopolitical developments, and inflationary pressures, may impact financial stability. However, the ongoing implementation of economic policies and monetary measures is expected to help mitigate these risks.

The Company remains vigilant in monitoring macroeconomic trends to safeguard financial resilience and ensure long-term sustainability. As economic conditions evolve, management is prepared to adapt strategies proactively to maintain stability and support sustainable growth.

3. Material accounting policies

Basis of preparation

These financial statements have been prepared in accordance with IFRS Accounting Standarts under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these financial statements are set out below.

Currency indicator

The national currency of the Republic of Azerbaijan is the Azerbaijani manat ("AZN"), and the manat is the Company's functional currency and presentation currency for current financial reporting purposes. These preliminary financial statements are presented in Azerbaijani Manats ("AZN"), unless otherwise stated.

Financial instruments - key measurement terms

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

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

A portfolio of other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

3. Material accounting policies (continued)

Financial instruments - key measurement terms (continued)

This is applicable for assets carried at fair value on a recurring basis if the Company: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities are substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and
(iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

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

Amortized cost (AC) is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method.

Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

Financial instruments initial recognition

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

3. Material accounting policies (continued)

Financial instruments initial recognition (continued)

After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the timeframe established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories

The Company classifies and measures financial assets at AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model

The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment.

Factors considered by the Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed.

Refer to Note 4 for critical judgements applied by the Company in determining the business models for its financial assets.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

Financial assets – classification and subsequent measurement – cash flow characteristics

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Company in performing the SPPI test for its financial assets.

Financial assets –reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Company did not change its business model during the current and comparative period and did not make any reclassifications.

3. Material accounting policies (continued)

Financial assets impairment – Expected credit loss allowance

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

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL.

The Company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 18 for a description of how the Company determines when a SICR has occurred. If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Company's definition of credit impaired assets and definition of default is explained in Note 7.

The Note provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

Financial assets – derecognition

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial liabilities – measurement categories

Financial liabilities are classified as subsequently measured at AC.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Loans and advances to customers

Loans and advances to customers were carried at AC and impairment losses were recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. If the Company determined that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics, and collectively assessed them for impairment.

3. Material accounting policies (continued)

Loans and advances to customers (continued)

The primary factors that the Company considered in determining whether a financial asset was impaired were its overdue status and realisability of related collateral, if any. The following other principal criteria were also used to determine whether there was objective evidence that a credit loss has occurred:

- any instalment was overdue and the late payment could not be attributed to a delay caused by the settlement systems;
- the borrower experienced a significant financial difficulty as evidenced by the borrower's financial information that the Company obtained;
- the borrower considered bankruptcy or a financial reorganisation;
- there was an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impacted the borrower; or
- the value of collateral significantly decreased as a result of deteriorating market conditions.

For the purposes of a collective evaluation of credit loss, financial assets were grouped on the basis of similar credit risk characteristics. Those characteristics were relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that were collectively evaluated for credit loss, were estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts would become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience was adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at AC were renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment were measured using the original effective interest rate before the modification of terms. The renegotiated asset were then derecognised and a new asset were recognised at its fair value only if the risks and rewards of the asset substantially changed. This were normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the credit loss decreases and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss was reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets were written off against the related credit loss allowance after all the necessary procedures to recover the asset had been completed and the amount of the loss had been determined. Subsequent recoveries of amounts previously written off were credited to credit loss account in profit or loss for the year.

3. Material accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Company in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Company's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Property and equipments

Properties are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and day-to day maintenance are expensed when incurred. The cost of replacing major parts or components of properties and equipment items are capitalised and the replaced part is retired.

Minor repairs and routine maintenance costs are expensed in the period incurred. The cost of replacing major parts of property and equipment is capitalized and the replaced parts are written off.

At the end of each reporting period management assesses whether there is any indication of impairment of properties and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation

Property, plant and equipment are depreciated using reducing balance method. The reducing balance method of depreciation is calculated by applying a fixed percentage on the book value of the asset each year.

Depreciation rates for property, plant and equipment are as follows:

Furniture and fixtures	20%
Computers and communication equipments	20%
Other tangible assets	20%

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each period end date.

3. Material accounting policies (continued)

Intangible assets

All of the Company's intangible assets have definite useful lives and primarily include capitalised computer software.Acquired computer software licences are capitalised based on the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Capitalised computer software is amortised on the reducing balance method by applying a fixed percentage of the 10%.

Leases

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

Company as a lessee

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

i) Right-of-use assets

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

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

3. Material accounting policies (continued)

iii) Short-term leases and leases of low-value assets

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

Term borrowings

Borrowed funds include loans from resident and non-resident banks and other financial institutions with fixed maturities and fixed interest rates. Borrowed funds are subsequently carried at amortised cost.

Income taxes

Income taxes have been provided for in the financial statements in accordance with Azerbaijani legislation enacted or substantively enacted by the period end date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement, except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions

The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities.

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Income and expense recognition

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

3. Material accounting policies (continued)

Income and expense recognition (continued)

Fees integral to the effective interest rate include origination fees received or paid by the Company relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Company to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Company will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

The Company does not designate loan commitments 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 (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation

The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and the Company's presentation currency is the national currency of the Republic of Azerbaijan, Azerbaijani Manats ("AZN").

Monetary assets and liabilities are translated into Company's functional currency at the official exchange rate of the CBAR at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into Company's functional currency at year-end official exchange rates of the CBAR are recognised in profit or loss for the year (as foreign exchange translation gains less losses).

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At December 31, 2024, the rate of exchange used for translating foreign currency balances denominated in United States dollars ("USD") was USD 1 = AZN 1.7000 (2023: USD 1 = AZN 1.7000).

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3. Material accounting policies (continued)

Offsetting (continued)

Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Staff costs and related contributions

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

Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or AC.

4. Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

ECL measurement

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 07.

The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios.

The Company regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Significant increase in credit risk ("SICR")

In order to determine whether there has been a significant increase in credit risk, the Company compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period.

The Company considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Company identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level.

4. Critical accounting estimates and judgements in applying accounting policies (continued)

Business model assessment

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Company considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity.

Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate.

The Company assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Company's control, is not recurring and could not have been anticipated by the Company, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

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

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

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

Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The Company identified and considered contractual terms that change the timing or amount of contractual cash flows.

The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract.

The asset's principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI:

(i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

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

4. Critical accounting estimates and judgements in applying accounting policies (continued)

Useful lives of property and equipment

Management determines the estimated useful lives of property and equipment and related depreciation expense. This probability is based on the projected duration of economic benefits estimated by the Company on the assets. Management accrues depreciation expense when the useful life is less than the previously estimated life, or when obsolete assets are abandoned or sold, those assets are technically written off in whole or in part. The useful life is reviewed at least at each reporting date.

Initial recognition of related party transactions

In the normal course of business, the Company enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

Going concern

Management prepared these financial statements on a going concern basis. In making this judgement management considered the Company's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Company.

5. Adoption of new or revised standards and interpretations

In the current year, the Company has adopted all new and revised standards issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee that are applicable to its activities and the reporting period ending on December 31, 2024.

The following amendments became effective from January 1, 2024.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on September 22, 2022 and effective for annual periods beginning on or after January 1, 2024)

The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means that any gain related to the right-of-use asset retained by the seller-lessee should be deferred, even when lease payments are variable and do not depend on an index or a rate.

5. Adoption of new or revised standards and interpretations (continued)

Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on January 23, 2020 and subsequently amended on July 15, 2020 and October 31, 2022, ultimately effective for annual periods beginning on or after January 1, 2024)

These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on May 25, 2023 and effective for annual periods beginning on or after January 1, 2024)

In response to concerns of the users of financial statements about inadequate or misleading disclosure of financing arrangements, in May 2023, the IASB issued amendments to IAS 7 and IFRS 7 to require disclosure about entity's supplier finance arrangements (SFAs). These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The purpose of the additional disclosure requirements is to enhance the transparency of the supplier finance arrangements. The amendments do not affect recognition or measurement principles but only disclosure requirements.

Unless stated otherwise, the application of the above amendments had no significant impact on the Company's financial statements.

6. New accounting pronouncements

As of the date of approval of these financial statements, in addition to the standards and interpretations previously adopted by the Company before their respective effective dates, the IASB has issued new standards and interpretations that will become mandatory for annual periods beginning on or after January 1, 2025. The Company has not early adopted these standards and interpretations.

Amendments to IAS 21 Lack of Exchangeability (Issued on August 15, 2023 and effective for annual periods beginning on or after January 1, 2025)

In August 2023, the IASB issued amendments to IAS 21 to help entities assess exchangeability between two currencies and determine the spot exchange rate, when exchangeability is lacking. An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose.

The amendments to IAS 21 do not provide detailed requirements on how to estimate the spot exchange rate. Instead, they set out a framework under which an entity can determine the spot exchange rate at the measurement date. When applying the new requirements, it is not permitted to restate comparative information. It is required to translate the affected amounts at estimated spot exchange rates at the date of initial application, with an adjustment to retained earnings or to the reserve for cumulative translation differences.

6. New accounting pronouncements (continued)

Amendments to the Classification and Measurement of Financial Instruments - Amendments to IFRS 9 and IFRS 7 (issued on May 30, 2024 and effective for annual periods beginning on or after January 1, 2026)

On May 30, 2024, the IASB issued amendments to IFRS 9 and IFRS 7 to:

- (a) clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;
- (b) clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
- (c) add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement of environment, social and governance (ESG) targets); and
- (d) update the disclosures for equity instruments designated at fair value through other comprehensive income (FVOCI).

IFRS 18 Presentation and Disclosure in Financial Statements (Issued on April 9, 2024 and effective for annual periods beginning on or after January 1, 2027)

In April 2024, the IASB has issued IFRS 18, the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to:

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

IFRS 18 will replace IAS 1 while retaining most of its principles with limited modifications.

IFRS 18 will not impact the recognition or measurement of items in the financial statements, but it might change what an entity reports as its 'operating profit or loss'. IFRS 18 will apply for reporting periods beginning on or after January 1, 2027 and also applies to comparative information.

IFRS 19 Subsidiaries without Public Accountability: Disclosures (Issued on May 9, 2024 and effective for annual periods beginning on or after January 1, 2027)

The International Accounting Standard Board (IASB) has issued a new IFRS Accounting Standard for subsidiaries. IFRS 19 permits eligible subsidiaries to use IFRS Accounting Standards with reduced disclosures. Applying IFRS 19 will reduce the costs of preparing subsidiaries' financial statements while maintaining the usefulness of the information for users of their financial statements.

Subsidiaries using IFRS Accounting Standards for their own financial statements provide disclosures that maybe disproportionate to the information needs of their users. IFRS 19 will resolve these challenges by:

- enabling subsidiaries to keep only one set of accounting records – to meet the needs of both their parent company and the users of their financial statements;
- reducing disclosure requirements – IFRS 19 permits reduced disclosure better suited to the needs of the users of their financial statements.

Unless otherwise described above, the new standards and interpretations are considered by Management and concluded that they are not expected to significantly affect the Company's financial statements.

The requirements of these new standards and interpretations have not been applied in the preparation of these financial statements. The Management has assessed the potential impact of these new standards and interpretations and does not expect them to have a material effect on its financial statements upon adoption. These standards will be applied as required from their respective effective dates.

7. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	December 31, 2024	December 31, 2023
Cash in transit	143,779	101,585
Bank balances payable on demand	183,615	172,783
Total cash and cash equivalents	**327,394**	**274,368**

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1.

8. Loans and leasings to customers

Loans and leasings to customers consisted of the following:

	December 31, 2024	December 31, 2023 (reclassified*)
Corporate loans	3,154,887	2,212,614
Loans to individuals – consumer loans	14,920,354	14,479,502
Leasing loans	12,909,013	8,849,940
Less: expected credit loss allowance	(1,856,582)	(1,339,600)
Total carrying amount of loans and leasings to customers at AC	**29,127,672**	**24,202,456**

*Certain amounts shown here are not consistent with Note 8 in the 2023 financial statements and reflect reclassification adjustments.

The gross carrying amount of loans and leasings to customers at amortized cost and the analysis of the allowance for credit losses by category as of December 31, 2024 and December 31, 2023 are shown in the table below:

	December 31, 2024			December 31, 2023 (reclassified *)		
	Gross amount	Expected credit loss allowance	Net value	Gross amount	Expected credit loss allowance	Net value
Loans to bussinesses – corporate loans						
Corporate loans	3,154,887	(564,542)	2,590,345	2,212,614	(207,320)	2,005,294
Loans to individuals – consumer loans						
Consumer loans	14,920,354	(990,080)	13,930,274	14,479,502	(934,940)	13,544,562
Loans to leasings						
Leasing loans	12,909,013	(301,960)	12,607,053	8,849,940	(197,340)	8,652,600
Loans and leasings to customers at total amortized cost	**30,984,254**	**(1,856,582)**	**29,127,672**	**25,542,056**	**(1,339,600)**	**24,202,456**

* Certain amounts shown here are not consistent with Note 8 in the 2023 financial statements and reflect reclassification adjustments.

8. Loans and leasings to customers (continued)

Movements in the loan expected credit loss by classes of loans and leasings for the year ended December 31, 2024 are as follows:

	Consumer loans	Corporate loans	Leasing loans	Total
Balance at the beginning of the year	**(934,940)**	**(207,320)**	**(197,340)**	**(1,339,600)**
Charge of expected credit loss allowance during the year	(55,140)	(357,222)	(104,620)	(516,982)
Balance at the end of the year	**(990,080)**	**(564,542)**	**(301,960)**	**(1,856,582)**

Movements in the loan expected credit loss by classes of loans and leasings for the year ended December 31, 2023 are as follows:

(reclassified*)	Consumer loans	Corporate loans	Leasing loans	Total
Balance at the beginning of the year	**(377,550)**	**(179,920)**	**-**	**(557,470)**
Charge expected credit loss allowance during the year	(557,390)	(27,400)	(197,340)	(782,130)
Balance at the end of the year	**(934,940)**	**(207,320)**	**(197,340)**	**(1,339,600)**

* Certain amounts shown here are not consistent with Note 8 in the 2023 financial statements and reflect reclassification adjustments.

The following table presents the ECL reserves stages based on IFRS 9 as at December 31, 2024.

	December 31, 2024			
	Stage 1	Stage 2	Stage 3	Total
Not overdue nor impaired	28,482,371	17,709	-	28,500,080
Overdue, but not impaired	-	457,595	19,013	476,608
Individually impaired (gross amount)	-	-	2,007,566	2,007,566
Less: expected credit loss allowance	(422,916)	(74,746)	(1,358,920)	(1,856,582)
Total	**28,059,455**	**400,558**	**667,659**	**29,127,672**

The following table presents the ECL reserves stages based on IFRS 9 as at December 31, 2023.

	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
Not overdue nor impaired	23,250,762	-	-	23,250,762
Overdue, but not impaired	-	866,006	-	866,006
Individually impaired (gross amount)	-	-	1,425,288	1,425,288
Less: expected credit loss allowance	(305,431)	(122,449)	(911,720)	(1,339,600)
Total	**22,945,331**	**743,557**	**513,568**	**24,202,456**

8. Loans and leasings to customers (continued)

The table below summarizes the quality assurance of loan portfolio at December 31, 2024:

	Gross loans	Expected credit loss allowance	Net loans
Consumer loans			
Loans without individual signs of impairment	13,394,720	(139,816)	13,254,904
Impaired loans:			
- overdue 30-90 days	375,682	(46,595)	329,087
- overdue than 90 days	1,149,952	(803,669)	346,283
Total impaired loans	**1,525,634**	**(850,264)**	**675,370**
Total consumer loans	**14,920,354**	**(990,080)**	**13,930,274**
Corporate loans			
Loans without individual signs of impairment	2,397,265	(58,821)	2,338,444
Impaired loans:			
- overdue 30-90 days	-	-	-
- overdue than 90 days	757,622	(505,721)	251,901
Total impaired loans	**757,622**	**(505,721)**	**251,901**
Total corporate loans	**3,154,887**	**(564,542)**	**2,590,345**
Leasing loans			
Loans without individual signs of impairment	12,708,094	(226,158)	12,481,936
Impaired loans:			
- overdue 30-90 days	100,926	(28,902)	72,024
- overdue than 90 days	99,993	(46,900)	53,093
Total impaired loans	**200,919**	**(75,802)**	**125,117**
Total leasing loans	**12,909,013**	**(301,960)**	**12,607,053**

The table below summarizes the quality assurance of loan portfolio at December 31, 2023:

(reclassified*)	Gross loans	Expected credit loss allowance	Net loans
Consumer loans			
Loans without individual signs of impairment	12,822,374	(131,249)	12,691,125
Impaired loans:			
- overdue 30-90 days	542,325	(60,318)	482,007
- overdue than 90 days	1,114,803	(743,373)	371,430
Total impaired loans	**1,657,128**	**(803,691)**	**853,437**
Total consumer loans	**14,479,502**	**(934,940)**	**13,544,562**
Corporate loans			
Loans without individual signs of impairment	10,428,388	(174,182)	10,254,206
Impaired loans:			
- overdue 30-90 days	323,680	(62,130)	261,550
- overdue than 90 days	310,486	(168,348)	142,138
Total impaired loans	**634,166**	**(230,478)**	**403,688**
Total corporate loans	**11,062,554**	**(404,660)**	**10,657,894**
Leasing loans			
Loans without individual signs of impairment	8,509,927	(127,566)	8,382,361
Impaired loans:			
- overdue 30-90 days	323,680	(62,130)	261,550
- overdue than 90 days	16,333	(7,644)	8,689
Total impaired loans	**340,013**	**(69,774)**	**270,239**
Total leasing loans	**8,849,940**	**(197,340)**	**8,652,600**

* Certain amounts shown here are not consistent with Note 8 in the 2023 financial statements and reflect reclassification adjustments.

8. Loans and leasings to customers (continued)

The Company's policy regarding obtaining collateral for loans has not changed significantly during the reporting period, and there has been no significant change in the overall quality of the collateral held by the Company since the previous period.

Description of collateral held for loans to corporate customers and individuals carried at amortised cost is as follows at December 31, 2024:

	Corporate loans	Consumer loans	Leasing
Loans collateralised by:			
-gold and jewelry	13,203,735	51,128	-
-vehicles	9,192	-	12,607,053
-movable properties	304,891	5,805	-
-residential real estate	47,848	50,879	-
-other real estate	10,309	522,006	-
Total	**13,575,975**	**629,818**	**12,607,053**
Unsecured exposures	354,299	1,960,527	-
Total gross value loans and leasings to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**13,930,274**	**2,590,345**	**12,607,053**

Description of collateral held for loans to corporate customers and individuals carried at amortised cost is as follows at December 31, 2023:

(reclassified*)	Corporate loans	Consumer loans	Leasing loans
Loans collateralised by:			
-vehicles	-	11,112,458	-
-movable properties	-	59,424	8,652,600
-gold and jewelry	1,006,966	824,858	-
-residential real estate	248,007	143,725	-
-other real estate	194,254	19,367	-
Total	**1,449,227**	**12,159,832**	8,652,600
Unsecured exposures	556,067	1,384,730	-
Total gross value loans and leasings to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**2,005,294**	**13,544,562**	**8,652,600**

* Certain amounts shown here are not consistent with Note 8 in the 2023 financial statements and reflect reclassification adjustments.

9. Property, equipments and intangible assets

Properties, equipment and intangible assets consisted of the following:

	Furniture and fixtures	Computers and communication equipments	Other tangible assets	Total tangible assets	Intangible assets	Total
Historical cost						
December 31, 2022	**2,350**	**27,586**	**18,905**	**48,841**	**14,879**	**63,720**
Addition for the year	-	13,593	7,900	21,493	87,969	109,462
December 31, 2023	**2,350**	**41,179**	**26,805**	**70,334**	**102,848**	**173,182**
Addition for the year	13,027	22,369	-	35,396	-	35,396
December 31, 2024	**15,377**	**63,548**	**26,805**	**105,730**	**102,848**	**208,578**
Accumulated depreciation and amortization						
December 31, 2022	**(1,247)**	**(11,135)**	**(4,921)**	**(17,303)**	**(8,109)**	**(25,412)**
Depreciation and amortization for the year	(221)	(4,915)	(3,200)	(8,336)	(2,865)	(11,201)
December 31, 2023	**(1,468)**	**(16,050)**	**(8,121)**	**(25,639)**	**(10,974)**	**(36,613)**
Depreciation and amortization for the year	(980)	(6,676)	(3,737)	(11,393)	(9,176)	(20,569)
December 31, 2024	**(2,448)**	**(22,726)**	**(11,858)**	**(37,032)**	**(20,150)**	**(57,182)**
Net book value						
December 31, 2022	**1,103**	**16,451**	**13,984**	**31,538**	**6,770**	**38,308**
December 31, 2023	**882**	**25,129**	**18,684**	**44,695**	**91,874**	**136,569**
December 31, 2024	**12,929**	**40,822**	**14,947**	**68,698**	**82,698**	**151,396**

As at December 31, 2024, and December 31, 2023 intangible assets mainly consist of software used to perform banking and accounting operations.

10. Right-of-use assets and lease liabilities

The Company leases ofis areas. Rental contracts are typically made for forced periods of 5 years but may have extension options.

Contracts may contain both lease and non-lease components. The Company elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Extension and termination options are included in a number of leases across the Company. These are used to maximize operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable by both the Company and the respective lessors.

From January 01, 2022, leases are recognized as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Company.

The movement in the balance sheet value of right of use assets is as follows:

	Office areas	Total
Carrying amount at December 31, 2022	**348,348**	**348,348**
Additions	-	-
Depreciation charge for the year	(87,027)	(87,027)
Carrying amount at December 31, 2023	**261,321**	**261,321**
Depreciation charge for the year	(87,266)	(87,266)
Carrying amount at December 31, 2024	**174,055**	**174,055**

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

	2024	2023
Total discounted lease liabilities at January 1	**331,610**	**406,479**
Finance cost	27,979	37,278
Finance cost paid	(27,979)	(37,278)
Principal paid	(98,328)	(74,869)
Total discounted lease liabilities at December 31	**233,282**	**331,610**
Current portion	108,738	98,328
Non-current portion	124,544	233,282
Total discounted lease liabilities at December 31	**233,282**	**331,610**
Current portion	126,307	112,147
Non-current portion	256,957	383,264
Total undiscounted lease liabilities at December 31	**383,264**	**495,411**

11. Other assets

Other assets consisted of the following:

	December 31, 2024	December 31, 2023
Prepayments for the services	709,038	653,219
Prepayments to SSPF	14,674	1,381
Total other assets	**723,712**	**654,600**

The deferred portion of insurance costs incurred on lease loans for which advance payments for services were made.

12. Term borrowings

Term borrowings consisted of the following:

	December 31, 2024	December 31, 2023
"Ziraat Bank Azerbaijan" OJSC	4,693,346	2,880,686
"Yelo Bank" OJSC	1,530,000	1,020,000
Entrepreneurship Development Fund of the Republic of Azerbaijan	330,000	-
Accrued interest	14,437	8,701
Total term borrowings	**6,567,783**	**3,909,387**

As at December 31, 2024 and December 31, 2023 term borrowings from banks of the Company were represented by the following facilities:

Banks	Loan agreement	Loan amount	Annual rate	Issue Date	Maturity date	December 31, 2024	December 31, 2023
"Ziraat Bank Azerbaijan" OJSC	020CRLN21000031-15	500,000 AZN	11%	28.10.2022	28.10.2024	-	420,154
"Ziraat Bank Azerbaijan" OJSC	020CRLN21000031-17	500,000 AZN	11%	16.11.2022	17.11.2025	240,660	486,288
"Ziraat Bank Azerbaijan" OJSC	020CRLN21000031-18	500,000 AZN	11%	02.12.2022	02.12.2025	231,373	481,001
"Ziraat Bank Azerbaijan" OJSC	020CRLN21000031-19	438,000 AZN	11%	13.12.2022	15.12.2025	233,501	438,000
"Entrepreneurship Development Fund of the Republic of Azerbaijan"	EDF of The Republic of Azerbaijan	330,000 AZN	1%	24.09.2024	24.09.2027	330,000	-
"Ziraat Bank Azerbaijan" OJSC	020CRLN21000031-24	623,500 USD	5.5%	15.08.2023	15.02.2025	180,219	1,062,541
"Yelo Bank" OJSC	6-SME-1-a-23/2	600,000 USD	5.5%	23.01.2023	19.01.2026	-	1,021,403
"Ziraat Bank Azerbaijan" OJSC	020CRLN24000025-6	600,000 USD	6.5%	02.08.2024	03.08.2026	823,067	-
"Ziraat Bank Azerbaijan" OJSC	020CRLN24000038	260,550 USD	6.5%	16.07.2024	16.07.2025	448,021	-
"Ziraat Bank Azerbaijan" OJSC	020CRLN24000036	600,000 USD	6.5%	10.07.2024	10.07.2025	1,020,000	-
"Ziraat Bank Azerbaijan" OJSC	020CRLN21000031-34	605,000 USD	6.5%	05.01.2024	05.01.2026	1,035,336	-
"Ziraat Bank Azerbaijan" OJSC	020CRLN21000031-33	430,295 USD	6.5%	30.04.2024	30.04.2026	495,606	-
"Yelo Bank" OJSC	6-SME-1-8-23/11	600,000 USD	6.5%	15.04.2024	31.01.2027	1,020,000	-
"Yelo Bank" OJSC	6-SME-1-8-23/9	300,000 USD	6.5%	31.01.2024	31.01.2027	510,000	-
Total amount						**6,567,783**	**3,909,387**

12. Term borrowings (continued)

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

	2024	2023
January 1	**3,909,387**	**1,949,423**
Cash flow movements		
Proceeds from term borrowings	6,102,937	2,079,950
Payment of principal amount	(3,450,277)	(117,264)
Payment of interest expense	(408,748)	(288,096)
Changes in accrued transactions		
Interest expense	414,484	285,374
December 31	**6,567,783**	**3,909,387**

13. Amounts due to related parties

The balances of amounts due to related parties are as follows:

	December 31, 2024	December 31, 2023
Amounts due to related parties:		
-"Ferrum Capital" CJSC	5,890,572	8,344,402
- Shareholder	500,000	-
Total amounts due to related parties	**6,390,572**	**8,344,402**

Amounts payable to related parties include interest-free loans granted for the purpose of financial assistance under an agreement signed between the Company and "Ferrum Kapital" CJSC and the shareholder, which are due for repayment by January 1, 2027 and December 10, 2025, respectively.

14. Debt securities in issue

	December 31 2024	December 31 2023
Bonds issued in domestic market	1,838,000	-
Accrued interest for bonds	3,223	-
Total debt securities in issue	**1,841,223**	-

The table below describes the changes in cash flows and accrued transactions affecting the initial and outstanding balance of debt securities issued:

	2024
January 1	-
Cash flow	
Term borrowings	2,003,000
Principal paid	(165,000)
Interest paid	(192,841)
Changes to non-cash operations	
Interest expense	196,064
December 31	**1,841,223**

15. Other liabilities

Other liabilities consisted of the following:

	December 31, 2024	December 31, 2023
Payable to customers	95,533	101,066
Payable to employees	62,194	38,338
Accrued expenses	15,870	15,280
Liabilities to SSPF	11,669	34,520
Payable for purchase intangible assets	-	27,180
Tax payables other than corporate income tax	-	20,000
Other liabilities	1,651	17,344
Total other liabilities	**186,917**	**253,728**

16. Charter capital

The total authorized number of ordinary shares is 1 (one) thousand shares with a par value of AZN 5,000 per share at December 31, 2024 (2023: 1 (one) thousand shares with a par value of AZN 5,000 per share).

17. Interest income and expense

Interest income and expense consisted of the following:

	Year ended December 31, 2024	Year ended December 31, 2023
Interest income calculated using the effective interest method		
- Loans and leasings to customers at AC	7,177,717	6,249,817
Total interest income calculated using the effective interest method	**7,177,717**	**6,249,817**
Interest expense		
- Lease liability	(27,979)	(37,278)
- Term borrowings	(414,484)	(285,374)
- Debt securities in issue	(196,064)	-
Total interest expense	**(638,527)**	**(322,652)**
Net interest income	**6,533,303**	**5,927,165**

18. Administrative and other operating expenses

Administrative and other operating expenses consisted of the following:

	Year ended December 31, 2024	Year ended December 31, 2023
Staff related expenses	(1,277,891)	(922,046)
Insurance expenses	(935,704)	(578,172)
Depreciation of right of use asset	(95,758)	(87,027)
Other expenses	(68,348)	(35,765)
Software expenses	(75,293)	(11,768)
Advertisement expenses	(70,321)	(43,738)
Professional service expenses	(43,916)	(55,409)
Depreciation and amortisation expenses	(20,570)	(11,202)
Short-term rent expenses	(1,200)	(100)
Tax expenses other than income tax	(417)	(275)
Sanctions	-	(20,000)
Total administrative and other operating expenses	**(2,589,418)**	**(1,765,502)**

19. Fee and comission expense

Fee and comission expenses consisted of the following:

	Year ended December 31, 2024	Year ended December 31, 2023
Fee and commission expense		
Fee and commission expense not relating to financial instruments at fair value through profit or loss		
- Paypoint operations	(165,305)	(68,873)
- Bank charges	(83,297)	(67,654)
Total fee and commission expenses	**(248,602)**	**(136,527)**

20. Corporate income tax

(a) Components of income tax expense

Corporate income tax expense comprises the following:

	Year ended December 31, 2024	Year ended December 31, 2023
Current income tax expense	(652,571)	(668,784)
Deferred tax benefit/(expense)	33,325	(20,429)
Corporate income tax expense for the year	**(619,246)**	**(689,213)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Company's income in 2024 and 2023 income is 20%. A reconciliation between the expected and the actual taxation charge is provided below:

	Year ended December 31, 2024	Year ended December 31, 2023
Profit before tax	**3,180,952**	**3,240,036**
Theoretical tax charge at statutory rate of 20%	(636,190)	(648,007)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Other	16,944	(41,206)
Income tax expense for the year	**(619,246)**	**(689,213)**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and Azerbaijani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2023: 20%).

20. Corporate income taxes (continued)

The tax effect of the movements in the temporary differences for the year ended December 31, 2024 are:

	December 31, 2023	Recognized in profit or loss	December 31, 2024
Tax effect of deductible temporary differences			
Loans and advances to customers	54,116	11,366	65,482
Property and equipment	(99)	70	(29)
Intangible assets	(429)	2	(427)
Right of use assets	(52,264)	17,453	(34,811)
Other liabilities	(16,405)	2,352	(14,053)
Lease liability	66,322	2,082	68,404
Net deferred tax asset	**51,241**	**33,325**	**84,566**

The tax effect of the movements in the temporary differences for the year ended December 31, 2023 are:

	December 31, 2022	Recognized in profit or loss	December 31, 2023
Tax effect of deductible temporary differences			
Loans and advances to customers	56,964	(2,848)	54,116
Property and equipment	-	(99)	(99)
Intangible assets	-	(429)	(429)
Right of use assets	(69,670)	17,406	(52,264)
Other liabilities	3,080	(19,485)	(16,405)
Lease liability	81,296	(14,974)	66,322
Net deferred tax asset	**71,670**	**(20,429)**	**51,241**

21. Financial risk management

The risk management is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk

The Company exposes itself to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.
Exposure to credit risk arises as a result of the Company's lending and other transactions with counterparties giving rise to financial assets.

The Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For financial guarantees issued, the maximum exposure to credit risk is the amount of the commitment.

	December 31, 2024	December 31, 2023
Cash and cash equivalents	327,394	274,368
Loans and advances to customers	29,127,672	29,346,949
Total maximum exposure to risk	**29,455,066**	**29,621,317**

Credit risk management

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

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

21. Financial risk management (continued)

Limits

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

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

Expected credit loss (ECL) measurement

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Company: Probability of Default ("PD"),

Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. PD an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

In order to calculate ECL an institution has to be able to determine the probability of default in a lifetime horizon (*Lifetime ECL*) for exposures in stage 2 and in a one-year horizon (*12-month ECL*) for those in stage 1. For the purpose of the IFRS 9 implementation, the estimation approach was applied.

Migration matrices were used for the entire portfolio to model transitions between final rating groups 0, 1, 2, 3 and default (days past due rating > 3).

One of the key requirements of IFRS 9 is inclusion of forward looking components. Usually, this is interpreted as necessity to adjust the estimates along with expected evolution of economy (so called macroeconomic overlay). The comparatively easy and convenient way to include such adjustment to PD lifetime estimates is usage of regression models that explain behaviour of historical defaults rates versus selected macroeconomic variables. Such relationship (if statistically relevant for a given portfolio) should be used to adjust marginal PD curves thus making it more point-in-time (up to possible extent).

For purposes of measuring PD, the Company defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the borrower meets the unlikeliness-to-pay criteria listed below:

- the Company was forced to restructure the debt;
- the borrower is deceased;
- the borrower is insolvent or it is becoming likely that the borrower will be insolvent;
- the loans originated at a deep discount that reflects the incurred credit losses.

21. Financial risk management (continued)

Expected credit loss (ECL) measurement (continued)

For purposes of disclosure, the Company fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Company. The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis and on a portfolio basis. For loans issued to corporate, to individuals and other financial assets, SICR is assessed either on a portfolio basis or an individual basis, depending on the existence of scoring models. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the management. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

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

For purposes of measuring PD, the Company defines default as a situation when the exposure meets one or more of the following criteria (continued):

- 30 days past due;
- award of risk grade "Special monitoring";
- SICR based on relative threshold based on internal ratings;
- inclusion of loan into a watch list according to the internal credit risk monitoring process;
- Relative threshold defined on the basis of a portfolio for products without existing scoring models: the Company regularly monitors segments with increased credit risk (regions of higher credit risk, failed products, products on which issuing was stopped) and considers such portfolios to have a SICR.

Level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1).

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

If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

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

The Company measures ECL on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio. This approach stratifies the loan pool into homogeneous segments based on borrower-specific information, such as delinquency status, the historical data on losses, location and other predictive information.

When assessment is performed on a portfolio basis, the Company determines the staging of the exposures and measures the loss allowance on a collective basis. The Company analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (such as wholesale or retail), product type, credit risk rating, date of initial recognition, term to maturity, the quality of collateral and loan to value (LTV) ratio. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

21. Financial risk management (continued)

Expected credit loss (ECL) measurement (continued)

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month).

This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters

The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument.

The Company uses different statistical approaches depending on the segment and product type to calculated lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data.

LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement is calculation of LGD on a portfolio basis based on recovery statistics; with details below:

- In the case of LGD modelling the targeted variable is a lifetime probability of reaching by a defaulted exposure two extreme (absorbing) states – repayment or write off. LGD is just a probability weighted average loss conditional on two possible ultimate states – i.e.: 0% loss in case of repayment and 100% loss in case of write off which is identified as rating 9. As a consequence, the LGD parameter is just probability of migration to the state 9. Therefore, migration matrices approach was employed where ratings 4 - 9 were treated as separate states rather than grouped into one default state.

- In this method rating 9 is assumed to be an absorbing state and defaults with ratings 4-8 will have their respective LGD values estimated as a lifetime transition into state 9.

- The rationale behind the treatment of long remaining exposure values as fully lost comes from the fact that all standard recovery options should be already exercised and should already have their reflection in data that are basis for LGD estimation.

Refer to the ranking table in above *Credit risk grading system* section.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL's both incorporate supportable forward-looking information. The Company identified certain key economic variables that correlate with developments in credit risk and ECL's.

21. Financial risk management (continued)

Market risk

The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. The goal of the Company's market risk management is to limit and reduce the amount of possible losses on open market positions that may be incurred by the Company due to negative changes in currency exchange rates and interest rates.

The Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk

The Company takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Company does not deal in any derivative instruments for speculative or hedging purposes.

The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At December 31, 2024			At December 31, 2023		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
AZN	29,434,057	(9,625,587)	19,808,470	24,476,665	(10,635,144)	13,841,521
US Dollars	21,009	(5,520,327)	(5,499,318)	159	(2,083,945)	(2,083,786)
Total	**29,455,066**	**(15,145,914)**	**14,309,152**	**24,476,824**	**(12,719,089)**	**11,757,735**

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied at the period end date, with all other variables held constant:

	At December 31, 2024	At December 31, 2023
	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 20%	(1,099,864)	(416,757)
US Dollar weakening by 20%	1,099,864	416,757

Other than as a result of any impact on the Company's profit or loss, there is no other impact on the Company's equity as a result of such change in exchange rates. The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Company.

The Company makes the following assumptions when carrying out its sensitivity analysis:

- The sensitivity analysis shows the effects of changes that are considered to be reasonably possible over the period until the Company will next present these disclosures, which is usually its next annual reporting period;

- The Company discloses only the effects of the changes at the limits of the reasonably possible range of the relevant risk variable, rather than all reasonably possible changes.

21. Financial risk management (continued)

Interest rate risk

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

The Management monitors on a daily basis and set limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

	On demand and up to 1 months	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
December 31, 2024					
Total financial assets	2,555,582	9,257,332	7,971,728	9,670,424	29,455,066
Total financial liabilities	(668,072)	(4,231,786)	(5,546,117)	(4,699,940)	(15,145,915)
Net interest sensitivity gap at December 31, 2024	**1,887,510**	**5,025,546**	**2,425,611**	**4,970,484**	**14,309,151**
December 31, 2023					
Total financial assets	2,902,702	7,923,757	6,773,088	6,877,277	24,476,824
Total financial liabilities	(580,756)	(3,213,271)	(5,750,966)	(3,174,097)	(12,719,090)
Net interest sensitivity gap at December 31, 2023	**2,321,946**	**4,710,486**	**1,022,122**	**3,703,180**	**11,757,734**

The Company's profit is not exposed to AZN market interest rate changes because the Company does not have variable interest assets or liabilities denominated in AZN.

The Company monitors interest rates for its financial instruments. The table below summarizes interest rates based on reports reviewed by key management personnel:

In % p.a.	December 31, 2024		December 31, 2023	
	AZN	USD	AZN	USD
Assets				
Loans and advances to customers	5%-40%	-	6%-38%	-
Liabilities				
Lease liability	10.1%	-	10.1%	-
Term borrowings	11%	5.5%-6.5%	11%	5.5%

The sign "-"in the table above means that the Company does not have the respective assets or liabilities in the corresponding currency.

All other financial assets and financial liabilities are non-interest bearing.

Geographical risk concentrations

The Company conducts lending activities only within territory of Azerbaijan Republic as at December 31, 2024 and December 31, 2023, the Company's all financial assets and liabilities are subject to 100% concentration to the Republic of Azerbaijan, which represents a significant geographical concentration in one region.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations arising from its financial liabilities. It refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match.

21. Financial risk management (continued)

Liquidity risk (continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

In order to manage liquidity risk, the Company performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. They also set parameters for the risk diversification of the liability base.

The Company's liquidity policy is comprised of the following:

–Projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;

–Maintaining a funding plan commensurate with the Company's strategic goals;

–Maintaining a diverse range of funding sources thereby increasing the Company's borrowing capacity, domestically as well as from foreign sources;

–Maintaining highly liquid and high-quality assets;

–Adjusting its product base by time bands against available funding sources; and

–Constant monitoring of asset and liability structures by time-bands.

The following tables show carrying amounts of liabilities of the Company including potential future non-accrued interest ranked on the basis of the remaining period from the period end date to their contractual maturity date.

The undiscounted maturity analysis of financial liabilities at December 31, 2024 is as follows:

	On demand and up to 1 months	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Financial assets					
Cash and cash equivalents	327,394	-	-	-	327,394
Loans and leasing to customers	2,228,188	9,257,332	7,971,728	9,670,424	29,127,672
Total potential future payments for financial assets	**2,555,582**	**9,257,332**	**7,971,728**	**9,670,424**	**29,455,066**
Financial liabilities					
Term borrowings	(229,671)	(993,335)	(2,665,788)	(3,371,992)	(7,260,786)
Debt decurities in issue	-	-	-	(1,841,223)	(1,841,223)
Amounts due to related parties	(396,000)	(1,886,333)	(2,876,000)	(1,232,239)	(6,390,572)
Other liabilities	(113,054)	-	-	-	(113,054)
Lease liability	(10,526)	(52,628)	(63,154)	(256,957)	(383,265)
Total potential future payments for financial liabilities	**(749,251)**	**(2,932,296)**	**(5,604,942)**	**(6,702,411)**	**(15,988,900)**

21. Financial risk management (continued)

Liquidity risk (continued)

The undiscounted maturity analysis of financial liabilities at December 31, 2023 is as follows:

	On demand and up to 1 months	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Financial assets					
Cash and cash equivalents	274,368	-	-	-	274,368
Loans and leasing to customers	3,311,663	9,199,001	8,056,923	8,779,362	29,346,949
Total potential future payments for financial assets	**3,586,031**	**9,199,001**	**8,056,923**	**8,779,362**	**29,621,317**
Financial liabilities					
Term borrowings	(101,692)	(1,107,434)	(1,444,407)	(1,559,543)	(4,213,076)
Amounts due to related parties	(355,000)	(2,178,928)	(4,357,856)	(1,452,618)	(8,344,402)
Other liabilities	(133,690)	-	-	-	(133,690)
Lease liability	(5,806)	(43,188)	(63,153)	(383,264)	(495,411)
Total potential future payments for financial liabilities	**(596,188)**	**(3,329,550)**	**(5,865,416)**	**(3,395,425)**	**(13,186,579)**

The Company does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Company monitors expected maturities and the resulting expected liquidity gap as follows:

	On demand and up to 1 months	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
December 31, 2024					
Total financial assets	2,555,582	9,257,332	7,971,728	9,670,424	29,455,066
Total financial liabilities	(749,251)	(2,932,296)	(5,604,942)	(6,702,411)	(749,251)
Net interest sensitivity gap at December 31, 2024	**1,806,331**	**6,325,036**	**2,366,786**	**2,968,013**	**28,705,815**
December 31, 2023					
Total financial assets	3,586,031	9,199,001	8,056,923	8,779,362	29,621,317
Total financial liabilities	(596,187)	(3,329,550)	(5,865,416)	(3,395,426)	(13,186,579)
Net interest sensitivity gap at December 31, 2023	**2,989,844**	**5,869,451**	**2,191,507**	**5,383,936**	**16,434,738**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Company's liquidity risk. It is unusual for financial corporations ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Company and its exposure to changes in interest and exchange rates.

Management considers that the current favorable macroeconomic environment for financial institutions operating in Azerbaijan, positive cash flows, the profitability of operations and access to foreign financial resources as required significantly decrease the risk of losses arising from current liquidity mismatches.

22. Management of capital

The Company's objectives when managing capital are (i) to comply with the minimum capital requirements set by Central Bank of the Republic of Azerbaijan (CBAR), (ii) to safeguard the Company's ability to continue as a going concern and (iii) to maintain a sufficient capital base ratios in order to support its business and to maximize shareholders' value.

There are no financial covenants stipulated by borrowing agreements in respect of capital adequacy requirements.

23. Contingencies and commitments

Legal proceedings

From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates and both internal and external professional advice the Company's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax contingencies

Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation, as applied to the transactions and activity of the Company, may be challenged by the relevant state authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

24. Fair value disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and

(iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	December 31, 2024			December 31, 2023		
	Level 1 fair value	Level 3 fair Value	Carrying value	Level 1 fair value	Level 3 fair value	Carrying value
Financial assets						
- Loans and leasing to customers	-	29,127,672	29,127,672	-	24,202,456	24,202,456
- Cash and cash equivalents	327,394	-	327,394	274,368	-	274,368
Total financial assets	**327,394**	**29,127,672**	**29,455,066**	**274,368**	**24,202,456**	**24,476,824**

24. Fair value disclosures (continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	December 31, 2024			December 31, 2023		
	Level 1 fair Value	Level 3 fair value	Carrying value	Level 1 fair value	Level 3 fair value	Carrying value
Financial liabilities						
-Term borrowings	-	(8,409,006)	(8,409,006)	-	(3,909,387)	(3,909,387)
- Debt decurities in issue	-	(1,841,223)	(1,841,223)			
-Amounts due to related parties	-	(6,390,572)	(6,390,572)	-	(8,344,402)	(8,344,402)
-Other liabilities	-	(113,054)	(113,054)	-	(133,690)	(133,690)
-Lease liability	-	(233,282)	(233,282)	-	(331,610)	(331,610)
Total financial liabilities	-	**(16,987,137)**	**(16,987,137)**	-	**(12,719,089)**	**(12,719,089)**

25. Related party transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At December 31, 2024, the outstanding balances with related parties were as follows:

	Entities under common control
Loans and leasing to customers	1,370,657
Amounts due to related party	6,390,572
Lease liability	(233,282)

At December 31, 2023, the outstanding balances with related parties were as follows:

	Entities under common control
Loans and leasing to customers	1,241,213
Amounts due to related party	8,344,402
Lease liability	331,610

The income and expense items with related parties for the year 2024 were as follows:

	Entities under common control
Interest income	102,968
Interest expense on lease liability	(27,979)

25. Related party transactions (continued)

The income and expense items with related parties for 2023 were as follows:

	Entities under common control
Interest income	78,136
Interest expense on lease liability	(37,278)

Key management compensation is presented below:

	Year ended December 31, 2024	Year ended December 31, 2023
Salaries	(160,871)	(98,429)
State pension and social security costs	(25,417)	(18,050)
Total	**(186,288)**	**(116,479)**

26. Events after the reporting period

There is no significant event after reporting date.