

“YELO BANK” OPEN JOINT STOCK COMPANY

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

“YELO BANK” OPEN JOINT STOCK COMPANY

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KPMG Audit Azerbaijan LLC
Port Baku South Tower
Neftchilar Avenue, 153
Baku, Azerbaijan AZ1010
+994 12 404 89 10

Independent Auditors' Report

To the Shareholders and Supervisory Board of "Yelo Bank" Open Joint Stock Company

Opinion

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

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

Basis for Opinion

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

Other Matter

The financial statements of the Bank as at and for the year ended December 31, 2023 were audited by other auditors who expressed an unmodified opinion on those statements on April 22, 2024.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance 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.

The engagement partner on the audit resulting in this independent auditors’ report is:

Nasiba Muradkhanova
KPMG Audit Azerbaijan LLC
Baku, the Republic of Azerbaijan
May 14, 2025



"YELO BANK" OPEN JOINT-STOCK COMPANY

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

(In thousands of Azerbaijan Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2024	Year ended December 31, 2023
Interest income	4,29	147,786	110,545
Interest expense	4,29	(54,050)	(44,066)
Net interest income		93,736	66,479
Fee and commission income	5,29	17,394	8,448
Fee and commission expense	6,29	(12,594)	(11,040)
Net fee and commission income/(loss)		4,800	(2,592)
Net gain on trading in foreign currencies	5	14,117	3,326
Net result from foreign currency derivatives	7	(4,144)	(3,257)
Net foreign exchange translation loss	5	(43)	(79)
Premiums to the Deposit Insurance Fund		(4,100)	(3,293)
Loan collection fees	14	(925)	(1,186)
Other operating income		1,024	821
Operating income		104,465	60,219
Recovery of expected credit losses on financial assets	8,29	479	10,114
Personnel expenses	9,29	(44,134)	(36,969)
General and administrative expenses	10,29	(19,820)	(18,910)
(Charge)/Recovery of expected credit losses on loan commitments and financial guarantees		(26)	13
Change in fair value of assets held for sale	18	2,641	(217)
Fair value loss on initial recognition of financial assets		467	(233)
Profit before income tax		44,072	14,017
Income tax expense	11	(1,309)	-
Net profit for the year		42,763	14,017
Other comprehensive income/(loss)			
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of investment securities		-	220
Charge of expected credit losses on investment securities at OCI		-	(66)
Net other comprehensive income		-	154
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		42,763	14,171
Earnings per share			
Basic and diluted (expressed in AZN)	25	0.23	0.07

The financial statements as set out on pages 8 to 73 were approved by management on May 14, 2025 and were signed on its behalf by:

Mr. Anar Hasanov
Chief Executive Officer

May 14, 2025
Baku, the Republic of Azerbaijan

Mr. Emil Dushdurov
Chief Financial Officer

May 14, 2025
Baku, the Republic of Azerbaijan

Mr. Ayaz Ismayilov
Chief Accountant

May 14, 2025
Baku, the Republic of Azerbaijan

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

“YELO BANK” OPEN JOINT-STOCK COMPANY

**STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2024**

(In thousands of Azerbaijan Manats, unless otherwise indicated)

	Notes	December 31, 2024	December 31, 2023*
ASSETS			
Cash and cash equivalents	12	267,136	722,151
Due from banks and other financial institutions	13	13,719	9,631
Loans to customers	14, 29	915,609	755,893
Investment securities	15	5,166	6,985
Property, equipment and intangible assets	16	28,746	29,702
Right-of-use assets	17	9,940	9,905
Assets held for sale	18	5,056	6,925
Deferred tax assets	11	2,790	-
Other assets	19, 29	14,698	11,967
Total assets		1,262,860	1,553,159
LIABILITIES			
Deposits and balances from banks		28	-
Current accounts and deposits from customers	20, 29	949,663	1,309,969
Borrowed funds	21	113,229	91,464
Subordinated borrowings	21	27,478	26,777
Lease liability	22	12,310	12,046
Provisions for guarantees and undrawn credit lines	27	658	632
Current income tax liabilities		3,290	-
Other liabilities	23, 29	27,178	26,008
Total liabilities		1,133,834	1,466,896
EQUITY			
Share capital	24	378,000	378,000
Share premium		401	401
Accumulated deficit		(249,375)	(292,138)
Total equity		129,026	86,263
Total liabilities and equity		1,262,860	1,553,159

* See note 2(d) for information regarding the change in comparative figures.

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

“YELO BANK” OPEN JOINT-STOCK COMPANY

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

(In thousands of Azerbaijan Manats, unless otherwise indicated)

	Share capital	Share premium	Other reserve	Accumulated deficit	Total equity
Balance as at January 1, 2023	378,000	401	(154)	(306,155)	72,092
Total comprehensive income					
Net profit for the year	-	-	-	14,017	14,017
Other comprehensive income for the year	-	-	154	-	154
Total comprehensive income for the year	-	-	154	14,017	14,171
Balance as at December 31, 2023	378,000	401	-	(292,138)	86,263
Total comprehensive income					
Net profit for the year	-	-	-	42,763	42,763
Total comprehensive income for the year	378,000	401	-	(249,375)	129,026
Balance as at December 31, 2024	378,000	401	-	(249,375)	129,026

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

“YELO BANK” OPEN JOINT-STOCK COMPANY

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

(In thousands of Azerbaijan Manats, unless otherwise indicated)

	Notes	2024	2023*
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		140,486	107,834
Interest paid		(50,767)	(38,229)
Fee and commission received		17,394	8,448
Fee and commission paid		(12,594)	(11,040)
Net receipts from trading in foreign currencies		14,117	3,326
Realized losses from transactions with derivatives		(4,144)	(4,398)
Personnel expenses paid		(42,846)	(36,954)
General and administrative expenses paid		(12,055)	(9,463)
Premiums paid to Deposit Insurance Fund		(4,100)	(3,293)
Loan collection fees paid		(925)	(855)
Other income received		11	137
(Increase)/decrease in operating assets			
Due from banks and other financial institutions		(3,843)	(8,520)
Loans to customers, net		(151,899)	(150,742)
Assets held for sale		5,463	5,648
Other assets		(2,336)	(3,622)
Increase/(decrease) in operating liabilities			
Current accounts and deposits from customers		(354,594)	718,835
Deposits and balances from banks		28	-
Other liabilities		(209)	1,259
Net cash provided from operating activities before income tax paid		(462,813)	578,371
Income tax paid		(809)	-
Cash flows provided from operating activities		(463,622)	578,371
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchase of investment securities		(1,700)	(3,558)
Proceeds from matured investment securities		3,396	17,325
Payments for property, equipment and intangible assets		(5,107)	(4,146)
Proceeds from sale of property and equipment and intangible assets		165	123
Cash flows provided from/(used in) investing activities		(3,246)	9,744
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowed funds	21	43,052	22,940
Repayment of borrowed funds	21	(21,345)	(18,920)
Repayment of principal portion of lease liabilities	22	(2,040)	(1,301)
Cash flows provided from financing activities		19,667	2,719
Net increase in cash and cash equivalents		(447,201)	590,834
Effect of unrealised changes in exchange rates on cash and cash equivalents (Net total unrealised gain for the year 2024: AZN 43 thousand)		(7,814)	3,107
Effect of net change in accrued interest on cash and cash equivalents		-	-
Cash and cash equivalents as at the beginning of the year	12	722,151	128,210
Cash and cash equivalents as at the end of the year	12	267,136	722,151

* See note 2(d) for information regarding the change in comparative figures.

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

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“YELO BANK” OPEN JOINT-STOCK COMPANY

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

1. BACKGROUND

(a) Organization and operations

These financial statements comprise the financial statements of Yelo Bank Open Joint Stock Company (the “Bank”) for the year ended December 31, 2024.

Originally, “Ulpar” JSCB was founded in 1994 in the Republic of Azerbaijan and held general banking license No 203 issued in 1994. During 2002, “Nikoil” Closed Joint Stock Company and “Lukoil” Azerbaijan Closed Joint Stock Company acquired the controlling interest in the bank and the bank was renamed to “Nikoil” OJSC Investment Commercial Bank. The bank has started operations under a full banking license No 203 issued by the Central Bank of the Republic of Azerbaijan (the “CBAR”) since May 2, 2002. In July 2008, “Topaz Investments Limited” CJSC acquired the controlling interest in the bank. In November 2019, “Nikoil Bank” OJSC implemented rebranding and was renamed to “Yelo Bank” OJSC. In March 2022, “Topaz Investments Limited” CJSC sold all shares of the Bank owned by “Topaz Investments Limited” CJSC to Ms. Marina Kulishova and Mr. Anar Hasanov. Its principal activities are deposit-taking, customer account maintenance, credit operations, issuing guarantees, cash and settlement operations, securities and foreign exchange transactions, and other activities related to commercial and universal banks. The Bank’s activities are regulated by the Central Bank of the Republic of Azerbaijan. The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Azerbaijan.

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

According to the Law of the Republic of Azerbaijan on “Deposit Insurance”, insured deposit is the part of protected deposit that will be compensated by the Deposit Insurance Fund in case of insurance incident occurs in the participant bank where a depositor is serviced. The maximum annual interest rate on protected deposits in the national currency is set at 12%, and in foreign currency - 2.5%. In case of insurance incident each depositor is entitled to receive compensation from the Deposit Insurance Fund for the full amount of deposit agreement, but not exceeding AZN 100 thousand and for individuals engaged in entrepreneurial activities, the compensation limit is AZN 20 thousand.

The Bank’s registered office is 81K Hasanbay Zardabi Avenue, Baku AZ 1122, the Republic of Azerbaijan.

As at December 31, 2024, the Bank had nineteen branches (December 31, 2023: eighteen). The majority of its assets and liabilities are located in the Republic of Azerbaijan.

The Bank is owned by:

	December 31, 2024, %	December 31, 2023, %
Shareholders		
Ms. Marina Kulishova	98.94	98.94
Mr. Anar Hasanov	0.96	0.96
“ISR Holding” LLC	0.10	0.10
Total	100.00	100.00

The Bank is ultimately controlled by a single individual, Ms. Marina Kulishova.

(b) Business environment

The Banks’s operations are primarily located in Azerbaijan. Consequently, the Bank is exposed to the economic and financial markets of Azerbaijan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Azerbaijan. The ongoing military conflict between the Russian Federation and Ukraine has further increased uncertainty in the business environment.

“YELO BANK” OPEN JOINT-STOCK COMPANY

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

The financial statements reflect management's assessment of the impact of the Azerbaijani business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards). The financial statements are prepared under the historical cost convention except for the financial instruments at fair value through other comprehensive income (FVOCI), and assets held for sale, which are stated at the lower of the carrying amount and fair value less the costs to sell. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(b) Functional and presentation currency

The functional currency of the Bank is Azerbaijani Manat (“AZN”) as being the national currency of the Republic of Azerbaijan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

At December 31, 2024, the principal rate of exchange used for translating foreign currency balances was USD 1= AZN 1.7000 and EUR 1=AZN 1.7724 (December 31, 2023: USD 1=AZN 1.7000 and EUR 1=AZN 1.8766).

The AZN is also the presentation currency for the purposes of these financial statements.

Financial information presented in AZN is rounded to the nearest thousand, unless otherwise stated.

(c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgments

Information about critical judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

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

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

In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

“YELO BANK” OPEN JOINT-STOCK COMPANY

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. 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 conditions to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual paramount and accrued interest and reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Bank's loan agreements allow adjusting interest rates in response to certain macroeconomic 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.

Significant increase in credit risk (“SICR”)

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

Fair value at initial recognition of Borrowed funds

Management has assessed that the fair value of the Borrowed funds approximates their carrying amount. This assessment is based on the view that there are no other financial instruments comparable to these borrowings in the market. The borrowings are considered to be part of a distinct and separate market, characterized by government-backed, subsidized funding terms that do not fluctuate in alignment with broader market conditions. Consequently, there have been no significant changes in the credit risk profile or prevailing market interest rates (see Note 21).

Modification of financial assets

When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit-impaired renegotiated loans should be derecognized and whether the new recognized loans should be considered as credit-impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications.

Write-off policy

Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due. Cases with a final court decision are moved to the off-balance sheet in the amount determined by the court decision on the basis of the minutes of the Supervisory Board upon the recommendation of the Board of Directors. Therefore, the gross carrying amounts of default loans are written-off. Any subsequent recoveries are credited to credit loss allowance.

“YELO BANK” OPEN JOINT-STOCK COMPANY

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

Determining lease term

The Bank leases office premises from third parties under contracts which do not have contractual maturity dates and are automatically renewed unless either party submits a termination notice of 3 months. The Bank determines non-cancellable lease period for such leases, taking into consideration penalties that would be incurred upon termination, including economic disincentives such as leasehold improvements, cost of relocating or the importance of the premises to the Bank's operations. As a result, the lease term for most significant office premises has been determined as a period of 3-12 years.

Assumptions

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within next financial year is included in the following notes:

Measurement of ECL allowance

Measurement of Expected Credit Loss (ECL) is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 27(d). 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 macroeconomic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. For details of ECL measurement including incorporation of forward-looking information refer to Note 27(d).

Useful life of property and equipment

The Bank assesses the remaining useful lives of items of property and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. These estimates may have a material impact on the amount of the carrying values of property and equipment and on depreciation recognized in profit or loss. Refer to Note 16.

(d) Presentation of comparative data

In the course of preparing the financial statements as at and for the year ended December 31, 2024, the Bank made reclassifications that affected the relevant line items in the statement of financial position as at December 31, 2023 and the statement of cash flows for the year ended December 31, 2023:

- Management has revised the presentation of the statement of financial position line item “Due from banks and other financial institutions”.

These accounts and deposits are represented by the mandatory reserve in the Central Bank of Azerbaijan (CBAR), which the Bank initially recognized under due from banks and other financial institutions and AZN 35,985 thousand but should be classified as cash and cash equivalents. This is because such deposits remain cash unless the restrictions fundamentally alter their nature. Hence, they are included in cash and cash equivalents on the statement of cash flows and the statement of financial position.

As a result, the amount of AZN 35,985 thousand was reclassified from due from banks and other financial institutions to cash and cash equivalents as at December 31, 2023. Following the change in presentation, cash flows from operating activities in the statement of cash flows for the year ended December 2023 31, increased by AZN 12,844 thousand.

- A subordinated borrowing agreement with an outstanding balance of AZN 10,177 thousand matured during 2023. Upon maturity, the contractual subordinated terms ceased, and since the repayment had not been made by the reporting date, the outstanding balance no longer met the definition of subordinated borrowing under IAS 32, “Financial Instruments: Presentation.” Consequently, the amount is reclassified to “Other liabilities” as at December 31, 2023. No interest has accrued since its maturity, and the Bank has fully discharged its obligations in accordance with the original terms of the agreement. Since there is no cash payment, this reclassification doesn't affect to Statement of Cash Flows for the year ended December 31, 2023.

“YELO BANK” OPEN JOINT-STOCK COMPANY

NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2024 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

- The premiums to the Deposit Insurance Fund the amount of AZN 3,293 thousand, which had previously been presented under “General and administrative expenses” in the statement of profit or loss, has been reclassified to the section of operating expenses as this expense is directly attributable to the Bank’s core deposit-taking activities and, more appropriately reflected within operating costs.

These reclassifications had no impact on the Bank’s retained earnings as at December 31, 2023 and January 1, 2023.

The following table shows the impact of such changes on the respective indicators:

	Before changes	Impact of changes	After changes
Statement of Financial Position as at December 31, 2023			
Cash and cash equivalents	686,166	35,985	722,151
Due from banks and other financial institutions	45,616	(35,985)	9,631
Subordinated borrowings	36,954	(10,177)	26,777
Other liabilities	15,831	10,177	26,008
Statement of Profit and Loss as at December 31, 2023			
Premiums to the Deposit Insurance Fund	-	(3,293)	(3,293)
Operating income	63,512	(3,293)	60,219
General and administrative expenses	(22,203)	3,293	(18,910)
Statement of Cash Flows for the year ended December 31, 2023			
Cash flows from operating activities			
Premiums paid to Deposit Insurance Fund	-	(3,293)	(3,293)
General and administrative expenses paid	(12,756)	3,293	(9,463)
(Increase)/decrease in operating assets			
Due from banks and other financial institutions	(21,364)	12,844	(8,520)
Cash flows provided from operating activities	565,527	12,844	578,371
Net increase in cash and cash equivalents	577,990	12,844	590,834
Cash and cash equivalents as at the beginning of the year	105,069	23,141	128,210
Cash and cash equivalents as at the end of the year	686,166	35,985	722,151

3. MATERIAL ACCOUNTING POLICIES

(a) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss.

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(b) Interest

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The “effective interest rate” is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The “amortized cost” of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The “gross carrying amount of a financial asset” measured at amortized cost is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortized cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortized cost.

(c) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (See Note 3).

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

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Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognized as the related services are performed. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, provision of overdraft facilities, foreign currency transactions, credit card and servicing fee. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when transaction takes place.	Revenue related to transactions is recognized at the point in time when the transaction takes place.
Guarantee and letter of credit issuance	The Bank issues guarantees and letters of credit to its customers.	Revenue from fees on issuance of guarantees and letters of credit is recognized over the period until maturity date of such contracts.

(d) Cash and cash equivalents

Cash and cash equivalents are short-term 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, amounts due from the CBAR, including obligatory reserves of CBAR, and unrestricted balances on correspondent accounts including overnight deposits and deposits 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.

(e) Financial assets and financial liabilities

(i) Classification

On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI or FVTPL .

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

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

All other financial assets are classified as measured at FVTPL.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

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

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

Reclassification

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

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The Bank should reclassify financial assets if the Bank changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Bank's senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. Accordingly, a change in the Bank's business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when the Bank has acquired, disposed of or terminated a business line.

(ii) Derecognition

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire (Note 3e (iii)).

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as “substantial modification”), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Bank due to changes in the CBAR key rate, if the loan agreement entitles the Bank to do so.

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The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In making this evaluation the Bank analogizes to the guidance on the derecognition of financial liabilities.

The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change of terms of financial asset that leads to non-compliance with the SPPI criterion (e.g. inclusion of conversion feature).

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Bank further performs a qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortized cost does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method (See Note 3).

For fixed-rate loans, where the borrower has the option to prepay the loan at par without significant penalty, the Bank treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- inclusion of conversion option;
- change in the subordination of the financial liability.

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For the quantitative assessment, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(iv) Expected credit losses

See also Note 27 (f).

The Bank recognizes loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (See Note 27).

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of “investment grade”.

12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as “Stage 1” financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized are referred to as “Stage 2” financial instruments if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired and “Stage 3” financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

See also Note 27.

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Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized (See Note 3) and ECL are measured as follows.

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (See Note 27).

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost are credit-impaired (referred to as “Stage 3 financial assets”). A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as “lender of last resort” to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.
- 7 days past due for transactions with financial institutions and issuers of securities.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision.

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Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component; the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component.

Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in “impairment losses on financial instruments” in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

(v) Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received.

If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(f) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank and all counterparties.

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(g) Loans to customers

“Loans to customers” caption in the statement of financial position include:

- loans to customers measured at amortized cost (See Note 3); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

(h) Investment securities

The “investment securities” caption in the statement of financial position includes:

- debt investment securities measured at amortized cost (See Note 3); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- equity investment securities mandatorily measured at FVTPL (See Note 3); these are measured at fair value with changes recognized immediately in profit or loss.

(i) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

(ii) Depreciation

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

The estimated useful lives are as follows:

Buildings	20 years
Furniture and fixtures	10 years
Computers and communication equipment	4-10 years
Vehicles	10 years
Other fixed assets	4 years
Leasehold improvements	lower of expected lease term and useful life
Right-of-use assets	over the term of the underlying lease

(j) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 5 to 10 years.

(k) Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Bank’s accounting policies. Thereafter generally, the assets are measured at the lower of their carrying amount and fair value less cost to sell.

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(l) IFRS 16 “Leases”

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate.

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

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

(m) Provisions

A provision is recognized in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. They are measured as follows:

- at the higher of the loss allowance determined in accordance with IFRS 9 (See Note 3) and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- the Bank recognizes a loss allowance (See Note 3).

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(o) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(ii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Azerbaijani legislation.

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Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(p) Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

(q) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences arising from the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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In determining the amount of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(r) Standards issued but not yet effective

A number of new accounting standards and amendments to accounting standards are effective for annual periods beginning after January 1, 2024 and earlier application is permitted. However, the Bank has not early adopted the new and amended accounting standards in preparing these financial statements.

(i) IFRS 18 Presentation and Disclosure in Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements and applies for annual reporting periods beginning on or after January 1, 2027. The new standard introduces the following key new requirements:

- Entities are required to classify all income and expenses into five categories in the statement of profit or loss, namely the operating, investing, financing, discontinued operations, and income tax categories. Entities are also required to present a newly-defined operating profit subtotal. Entities' net profit will not change.
- Management-defined performance measures (MPMs) are disclosed in a single note in the financial statements.
- Enhanced guidance is provided on how to group information in the financial statements.
- In addition, all entities are required to use the operating profit subtotal as the starting point for the statement of cash flows when presenting operating cash flows under the indirect method.

The Bank is still in the process of assessing the impact of the new standard, particularly with respect to the structure of the Bank's statement of profit or loss, the statement of cash flows, and the additional disclosures required for MPMs.

(ii) Other accounting standards

The following new and amended standards are not expected to have a significant impact on the Bank's financial statements.

- Lack of Exchangeability (Amendments to IAS 21).
- Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7).

4. NET INTEREST INCOME

	Year ended December 31, 2024	Year ended December 31, 2023
Interest income calculated using the effective interest method		
Loans to customers	131,745	105,112
Cash and cash equivalents	15,055	4,700
Investment securities	303	717
Due from banks and other financial institutions	683	16
	147,786	110,545
Interest expense calculated using the effective interest method		
Current accounts and deposits from customers	(48,945)	(38,375)
Borrowed funds	(2,991)	(2,834)
Lease liability	(1,413)	(1,734)
Subordinated borrowings	(701)	(934)
Deposits and balances from banks	-	(189)
	(54,050)	(44,066)
Net interest income	93,736	66,479

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5. FEE AND COMMISSION INCOME

	Year ended December 31, 2024	Year ended December 31, 2023
Plastic cards operations	7,040	5,268
Settlements	8,671	2,176
Cash withdrawals	513	497
Guarantee and letter of credit issuance	290	234
Others	880	273
Total fee and commission income	17,394	8,448

During the year, the Bank recorded significant increases in both commission income, especially in settlements, and gains from trading foreign currencies, primarily driven by transactions with related parties.

Firstly, on 22 February 2024, a large one-off interbank transfer initiated by a corporate client amounted to AZN 375,150 thousand and generated commission income of AZN 5,627 thousand.

Secondly, a substantial foreign currency conversion transaction in amount of AZN 174,985 thousand (AED 385,345 thousand) carried out by a major counterparty led to a notable increase in both commission income and foreign exchange gains. As a result of this transaction, the Bank earned a commission of AZN 1,719 thousand (USD 1,002 thousand) and a foreign exchange gain of AZN 3,596 thousand from the conversion of a large deposit from the local currency into USD through Yelo Bank, which is recorded within “Net gain on trading in foreign currencies” of the statement of profit or loss and other comprehensive income.

Both transactions were identified as significant but non-recurring events that had a material impact on the Bank’s financial performance during the year.

Disaggregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major types of commission income.

	Retail Banking		Corporate and MSME Banking		Total	
For the year ended December 31	2024	2023	2024	2023	2024	2023
Plastic cards operations	3,254	2,423	3,786	2,845	7,040	5,268
Settlements	836	808	7,835	1,368	8,671	2,176
Cash withdrawals	140	263	373	234	513	497
Guarantee and letter of credit issuance	-	-	290	234	290	234
Others	247	21	633	252	880	273
Total fee and commission income	4,477	3,515	12,917	4,933	17,394	8,448
Fee and commission expense	(6,683)	(6,844)	(5,911)	(4,196)	(12,594)	(11,040)
Net fee and commission (loss)/income	(2,206)	(3,329)	7,006	737	4,800	(2,592)

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to a customer.

Net foreign exchange translation gains/(losses)

The following table presents the breakdown of the Bank’s foreign exchange gains and losses for the years ended 31 December 2024 and 2023:

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	Year ended December 31, 2024	Year ended December 31, 2023
Foreign exchange translation gains (realized)	14,117	3,326
Foreign exchange translation losses (unrealized)	(43)	(79)
Net foreign exchange translation gains/(losses)	14,074	3,247

Realized foreign exchange gains primarily arose from the settlement of transactions denominated in foreign currencies. Unrealized losses reflect the impact of year-end remeasurement of monetary assets and liabilities denominated in foreign currencies in accordance with prevailing exchange rates.

6. FEE AND COMMISSION EXPENSE

	2024	2023
Plastic cards operations	(9,153)	(7,017)
Agency fees	(1,245)	(2,013)
Cashback	(1,532)	(1,371)
Settlements	(430)	(396)
Cash withdrawals	(206)	(205)
Brokerage services	(8)	(13)
Others	(20)	(25)
Total fee and commission expense	(12,594)	(11,040)

7. NET RESULT FROM FOREIGN CURRENCY DERIVATIVES

The Bank entered into derivative financial instruments as at December 31, 2024 and 2023 in order to release funds for lending in the national currency and to more effectively manage the Liquidity Coverage Ratio (LCR), which is mandatorily required by the Central Bank of the Republic of Azerbaijan. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year-end and are not indicative of the credit risk.

	December 31, 2024			December 31, 2023		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Forwards and swaps - foreign	25,500	-	(1,231)	-	-	-
Forwards and swaps-domestic	22,100	-	(2,784)	43,603	-	(2,803)
Total derivative assets/(liabilities)		-	(4,015)		-	(2,803)

Foreign exchange derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Included in net result from foreign currency derivatives in the amount of AZN 4,144 thousand and AZN 3,257 thousand as at December 31, 2024 and 2023 represent net results from foreign currency non-deliverable forward contracts and foreign currency swap contracts.

8. RECOVERY OF EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

The following tables provide breakdowns of expected credit losses on financial assets and the loss allowance in the statement of profit or loss and other comprehensive income per class of financial instruments as at December 31, 2024 and December 31, 2023:

December 31, 2024	Loans to customers at amortized cost	Other financial assets	Investment securities	Total
Net remeasurement of loss allowance	15,075	(284)	-	14,791
New financial assets originated or purchased	(14,312)	-	-	(14,312)
Total recovery/(charge)	763	(284)	-	479

December 31, 2023	Loans to customers at amortized cost	Other financial assets	Investment securities	Total
Net remeasurement of loss allowance	20,592	(127)	97	20,562
New financial assets originated or purchased	(10,448)	-	-	(10,448)
Total recovery/(charge)	10,144	(127)	97	10,114

9. PERSONNEL EXPENSES

	2024	2023
Employee compensation	(37,666)	(31,469)
Contributions to the State Social Protection Fund	(6,468)	(5,500)
Total personnel expenses	(44,134)	(36,969)

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10. GENERAL AND ADMINISTRATIVE EXPENSES

	2024	2023
Depreciation and amortization	(7,771)	(7,197)
Professional services	(2,728)	(2,791)
Computer software cost	(1,633)	(1,782)
Advertising and marketing expenses	(1,521)	(1,014)
Representation expenses	(1,083)	(599)
Office supplies and printing expenses	(789)	(938)
Communication expenses	(767)	(791)
Security expenses	(717)	(864)
Travel expenses	(556)	(508)
Repair and maintenance expenses	(524)	(466)
Taxes other than on income	(451)	(456)
Office utilities and cleaning expenses	(332)	(314)
Vehicle running cost	(247)	(218)
Legal and court expenses	(170)	(125)
Rent expenses, low value or short-term lease expenses	(145)	(136)
Others	(386)	(711)
Total other general administrative expenses	(19,820)	(18,910)

11. INCOME TAX EXPENSE

	2024	2023
Current year income tax expense	(4,099)	-
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	2,790	-
Total income tax expense	(1,309)	-

In 2024, the applicable tax rate for current and deferred tax was 20% (December 31, 2023: 20%).

Reconciliation of effective tax rate for the years ended December 31:

	2024	%	2023	%
Profit before income tax	44,072		14,017	
Income tax at the applicable tax rate	(8,814)	20	(2,803)	20
Non-deductible costs	(317)	1	(329)	2
Impacts from previously unrecognized deferred tax asset	7,822	(18)	3,132	(22)
Total income tax expense	(1,309)	3	-	-

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at December 31, 2024 and 2023. The deferred tax assets are recognized in amount of AZN 2,790 as at December 31, 2024. these financial statements.

Movements in temporary differences during the years ended December 31, 2024 and 2023 are presented as follows.

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2024	Balance at January 1, 2024	Recognized in profit or loss	Balance at December 31, 2024
Tax loss carry-forwards	7,050	(7,050)	-
Right-of-use assets	(1,981)	313	(1,668)
Other liabilities	1,178	(113)	1,065
Property, equipment and intangible assets	327	330	657
Other assets	527	(461)	66
Provisions	126	6	132
Loans to customers	(773)	1,973	1,200
Lease liability	2,409	(267)	2,142
Assets held for sale	(692)	9	(683)
Borrowed funds	(23)	23	-
Due from banks and other financial institutions	(54)	(60)	(114)
Current accounts and deposits from customers	(257)	257	-
Deposits and balances from banks	(15)	8	(7)
Total deferred tax assets	7,822	(5,032)	2,790
Deferred tax asset before valuation allowance	7,822	(5,032)	2,790
Deferred tax asset not Recognized	(7,822)	7,822	-
Net deferred tax asset	-	2,790	2,790

2023	Balance at January 1, 2023	Recognized in profit or loss	Recognized in OCI	Balance at December 31, 2023
Tax loss carry-forwards	11,168	(4,118)	-	7,050
Right-of-use assets	(2,085)	104	-	(1,981)
Other liabilities	565	613	-	1,178
Property, equipment and intangible assets	220	107	-	327
Other assets	(785)	1,312	-	527
Provisions	129	(3)	-	126
Investment securities	51	(20)	(31)	-
(1,759)2,361 1,321Loans to customers	(1,759)	986	-	(773)
Lease liability	2,361	48	-	2,409
Assets held for sale	1,321	(2,013)	-	(692)
Other borrowed funds	(70)	47	-	(23)
Due from banks and other financial institutions	79	(133)	-	(54)
Current accounts and deposits from customers	(552)	295	-	(257)
Deposits and balances from banks	(16)	1	-	(15)
Total deferred tax assets	10,627	(2,774)	(31)	7,822
Deferred tax asset before valuation allowance	10,627	(2,774)	(31)	7,822
Deferred tax asset not recognized	(10,627)	2,774	31	(7,822)
Net deferred tax asset	-	-	-	-

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12. CASH AND CASH EQUIVALENTS

	December 31, 2024	December 31, 2023
Cash on hand	29,197	24,182
Nostro accounts and overnight placements with the CBAR	12,386	55,643
Nostro accounts and overnight placements with other banks and financial institutions	145,247	575,054
Cash equivalents		
CBAR notes less than 90 days	-	1,636
Obligatory reserve with the CBAR	43,160	35,985
Short-term deposits with other banks	37,146	29,651
Total cash and cash equivalents	267,136	722,151

Mandatory reserve with the CBAR

The mandatory reserve deposit is a non-interest-bearing deposit calculated in accordance with regulations issued by the CBAR and whose withdrawal ability is not restricted. Reserves are measured in accordance with regulations issued by the CBAR and depend on the level of customer funds attracted.

As at December 31, 2024, besides the CBAR, the Bank had no other banks where the balance exceeded 10% of the Bank's equity (December 31, 2023: six banks). The gross value of these balances as at December 31, 2024 was nil (December 31, 2023: AZN 595,553 thousand).

Loss allowance

As at December 31, 2024 and 2023, all balances included in cash and cash equivalents are classified as Stage 1 and no loss allowance is recognized, as the ECL of these balances represents an insignificant amount.

13. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2024	December 31, 2023
Loans and deposits		
- rated from AA- to AA+	-	170
- rated from A- to A+	772	3,759
- rated from BB- to BB+	12,947	5,702
Total loans and deposits	13,719	9,631
Less: Allowance for expected credit loss	-	-
Total due from banks and other financial institutions	13,719	9,631

As at December 31, 2024 there is no impairment allowance for amounts due from banks and other financial institutions (December 31, 2023: nil) as the ECL of these balances represents an insignificant amount.

As at December 31, 2024 and 2023 the Bank had no due from banks and other financial institutions whose balance exceeded 10% of equity.

As at December 31, 2024 accrued interest income included in due from banks and other financial institutions amounted to AZN 281 thousand (December 31, 2023: AZN 16 thousand).

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An analysis of changes in gross carrying value on amounts due from banks and other financial institutions during the year ended December 31, 2024 is as follows:

	<u>Stage 1</u>	<u>Total</u>
Gross carrying value as at January 1, 2024	9,631	9,631
Net change in carrying value	<u>4,088</u>	<u>4,088</u>
As at December 31, 2024	<u>13,719</u>	<u>13,719</u>

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

	<u>Stage 1</u>	<u>Total</u>
Gross carrying value as at January 1, 2023	23,736	23,736
Net change in carrying value	<u>(14,105)</u>	<u>(14,105)</u>
As at December 31, 2023	<u>9,631</u>	<u>9,631</u>

Loss allowance

As at December 31, 2024 and 2023, all balances included in due from banks and other financial institutions are classified as Stage 1 and no loss allowance is recognized.

14. LOANS TO CUSTOMERS

	<u>December 31, 2024</u>	<u>% of total gross loans</u>	<u>December 31, 2023</u>	<u>% of total gross loans</u>
Corporate loans	<u>134,324</u>	14%	<u>136,191</u>	17%
Total loans to corporate customers	<u>134,324</u>		<u>136,191</u>	
Entrepreneur loans	<u>473,006</u>	49%	<u>376,616</u>	47%
Consumer loans	<u>268,036</u>	28%	<u>209,988</u>	27%
Mortgage loans	<u>80,791</u>	8%	<u>72,182</u>	9%
Total loans to individuals	<u>821,833</u>		<u>658,786</u>	
Gross loans to customers	<u>956,157</u>		<u>794,977</u>	
Less: Allowance for expected credit loss	<u>(40,548)</u>	4%	<u>(39,084)</u>	5%
Net loans to customers	<u>915,609</u>		<u>755,893</u>	

As at December 31, 2024, accrued interest income included in loans to customers amounted to AZN 32,990 thousand (December 31, 2023: AZN 32,964 thousand).

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(a) Loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance of loans to customers for the ended December 31, 2024.

	2024			Total
	Stage1	Stage2	Stage3	
Allowance for ECL of loans to customers				
Balance at January 1	11,127	1,144	26,813	39,084
Transfer to Stage 1	2,530	(177)	(2,353)	-
Transfer to Stage 2	(172)	181	(9)	-
Transfer to Stage 3	(260)	(588)	848	-
Net remeasurement of loss allowance	(9,739)	280	(5,074)	(14,533)
New financial assets originated or purchased	11,328	1,127	1,857	14,312
Write-offs	-	-	(8,901)	(8,901)
Recoveries of amounts previously written off	-	-	7,771	7,771
Unwinding of discount on present value of ECLs	-	-	2,815	2,815
Balance at December 31	14,814	1,967	23,767	40,548

During the year ended December 31, 2024 the Bank recovered loans in the amount of AZN 542 thousand value from the POCI (Purchased or originated credit- impaired) category (December 31, 2023: AZN 3,296 thousand).

	2024			Total
	Stage 1	Stage 2	Stage 3	
Allowance for ECL of loans to customers – corporate loans				
Balance at January 1	1,599	384	17,026	19,009
Transfer to Stage 1	2,201	(25)	(2,176)	-
Transfer to Stage 2	(15)	15	-	-
Transfer to Stage 3	(26)	(92)	118	-
Net remeasurement of loss allowance	(3,059)	(160)	(1,239)	(4,458)
New financial assets originated or purchased	1,058	171	21	1,250
Write-offs	-	-	(7,169)	(7,169)
Recoveries of amounts previously written off	-	-	1,688	1,688
Unwinding of discount on present value of ECLs	-	-	747	747
Balance at December 31	1,758	293	9,016	11,067

	2024			Total
	Stage 1	Stage 2	Stage 3	
Allowance for ECL of loans to customers – loans to individuals				
Balance at January 1	9,528	760	9,787	20,075
Transfer to Stage 1	329	(152)	(177)	-
Transfer to Stage 2	(157)	166	(9)	-
Transfer to Stage 3	(234)	(496)	730	-
Net remeasurement of loss allowance	(6,680)	440	(3,835)	(10,075)
New financial assets originated or purchased	10,270	956	1,836	13,062
Write-offs	-	-	(1,732)	(1,732)
Recoveries of amounts previously written off	-	-	6,083	6,083
Unwinding of discount on present value of ECLs	-	-	2,068	2,068
Balance at December 31	13,056	1,674	14,751	29,481

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The following tables show reconciliations from the opening to the closing balances of the loss allowance of loans to customers for the ended December 31, 2023.

	2023			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL of loans to customers				
Balance at January 1	9,517	689	85,119	95,325
Transfer to Stage 1	238	(144)	(94)	-
Transfer to Stage 2	(234)	234	-	-
Transfer to Stage 3	(191)	(380)	571	-
Net remeasurement of loss allowance	(6,961)	(26)	(10,309)	(17,296)
New financial assets originated or purchased	8,758	771	919	10,448
Write-offs	-	-	(60,501)	(60,501)
Recoveries of amounts previously written off	-	-	9,488	9,488
Unwinding of discount on present value of ECLs	-	-	1,620	1,620
Balance at December 31	11,127	1,144	26,813	39,084

	2023			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL of loans to customers – corporate loans				
Balance at January 1	1,702	125	32,416	34,243
Transfer to Stage 1	14	(14)	-	-
Transfer to Stage 2	(149)	149	-	-
Transfer to Stage 3	(57)	(111)	168	-
Net remeasurement of loss allowance	(991)	(82)	2,408	1,335
New financial assets originated or purchased	1,080	317	377	1,774
Write-offs	-	-	(24,629)	(24,629)
Recoveries of amounts previously written off	-	-	5,272	5,272
Unwinding of discount on present value of ECLs	-	-	1,014	1,014
Balance at December 31	1,599	384	17,026	19,009

	2023			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL of loans to customers – loans to individuals				
Balance at January 1	7,815	564	52,703	61,082
Transfer to Stage 1	224	(130)	(94)	-
Transfer to Stage 2	(85)	85	-	-
Transfer to Stage 3	(134)	(269)	403	-
Net remeasurement of loss allowance	(5,970)	56	(12,717)	(18,631)
New financial assets originated or purchased	7,678	454	542	8,674
Write-offs	-	-	(35,872)	(35,872)
Recoveries of amounts previously written off	-	-	4,216	4,216
Unwinding of discount on present value of ECLs	-	-	606	606
Balance at December 31	9,528	760	9,787	20,075

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(b) Credit quality analysis

Significant changes in the gross carrying amount of financial instruments during the year that contributed to changes in loss allowance were as follows:

- the volume of loans originated during the period increased the gross carrying amount of the loan portfolio by AZN 653,621 (December 31, 2023: AZN 539,742 thousand) with a corresponding increase in loss allowance by AZN 14,312 thousand (as at December 31, 2023: AZN 10,448 thousand);
- the write-off of loans with a total gross carrying amount of AZN 8,901 thousand resulted in the reduction of Stage 3 loss allowance by the same amount (as at December 31, 2023: AZN 60,501 thousand).

The following table sets out information about the credit quality of loans to customers measured at amortized cost as at December 31, 2024. Unless specially indicated, the amounts in the table represent gross carrying amounts.

Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 3.

	December 31, 2024			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost				
corporate loans				
Not overdue	104,484	10,062	280	114,826
Overdue less than 30 days	3,151	322	51	3,524
Overdue 30-89 days	-	686	59	745
Overdue 90-179 days	-	-	4,450	4,450
Overdue 180-360 days	-	-	1,190	1,190
Overdue more than 360 days	-	-	9,589	9,589
	107,635	11,070	15,619	134,324
Loss allowance	(1,758)	(293)	(9,017)	(11,068)
Carrying amount	105,877	10,777	6,602	123,256

	December 31, 2024			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost				
entrepreneur loans				
Not overdue	447,174	3,312	785	451,271
Overdue less than 30 days	7,402	541	89	8,032
Overdue 30-89 days	12	2,525	162	2,699
Overdue 90-179 days	-	-	1,782	1,782
Overdue 180-360 days	-	-	3,004	3,004
Overdue more than 360 days	-	-	6,218	6,218
	454,588	6,378	12,040	473,006
Loss allowance	(8,583)	(853)	(7,225)	(16,661)
Carrying amount	446,005	5,525	4,815	456,345

	December 31, 2024			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost				
consumer loans				
Not overdue	246,232	5,042	718	251,992
Overdue less than 30 days	5,611	189	170	5,970
Overdue 30-89 days	150	2,064	125	2,339
Overdue 90-179 days	-	-	1,614	1,614
Overdue 180-360 days	-	-	2,568	2,568
Overdue more than 360 days	-	-	3,553	3,553
	251,993	7,295	8,748	268,036
Loss allowance	(4,340)	(809)	(5,389)	(10,538)
Carrying amount	247,653	6,486	3,359	257,498

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(In thousands of Azerbaijan Manats, unless otherwise indicated)

	December 31, 2024			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost				
mortgage loans				
Not overdue	76,491	-	614	77,105
Overdue less than 30 days	1,095	36	-	1,131
Overdue 30-89 days	34	354	-	388
Overdue 90-179 days	-	-	5	5
Overdue 180-360 days	-	-	197	197
Overdue more than 360 days	-	-	1,965	1,965
	77,620	390	2,781	80,791
Loss allowance	(133)	(12)	(2,136)	(2,281)
Carrying amount	77,487	378	645	78,510

The following table provides information on the credit quality of loans to customers as at December 31, 2023. Unless specially indicated, the amounts in the table represent gross carrying amounts.

Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 3.

	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost				
corporate loans				
Not overdue	94,366	6,680	13,108	114,154
Overdue less than 30 days	2,087	-	1,218	3,305
Overdue 30-89 days	48	808	-	856
Overdue 90-179 days	-	-	285	285
Overdue 180-360 days	-	-	313	313
Overdue more than 360 days	-	-	17,278	17,278
	96,501	7,488	32,202	136,191
Loss allowance	(1,599)	(384)	(17,026)	(19,009)
Carrying amount	94,902	7,104	15,176	117,182

	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost				
entrepreneur loans				
Not overdue	363,550	1,887	282	365,719
Overdue less than 30 days	1,977	174	37	2,188
Overdue 30-89 days	46	1,308	43	1,397
Overdue 90-179 days	-	-	2,348	2,348
Overdue 180-360 days	-	-	1,332	1,332
Overdue more than 360 days	-	-	3,632	3,632
	365,573	3,369	7,674	376,616
Loss allowance	(5,724)	(364)	(4,587)	(10,675)
Carrying amount	359,849	3,005	3,087	365,941

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	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost – consumer loans				
Not overdue	198,478	2,639	212	201,329
Overdue less than 30 days	2,898	159	110	3,167
Overdue 30-89 days	18	1,136	13	1,167
Overdue 90-179 days	-	-	792	792
Overdue 180-360 days	-	-	1,199	1,199
Overdue more than 360 days	-	-	2,334	2,334
	201,394	3,934	4,660	209,988
Loss allowance	(3,573)	(389)	(2,710)	(6,672)
Carrying amount	197,821	3,545	1,950	203,316

	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost mortgage loans				
Not overdue	67,001	160	848	68,009
Overdue less than 30 days	1,114	-	-	1,114
Overdue 30-89 days	108	295	-	403
Overdue 90-179 days	-	-	60	60
Overdue 180-360 days	-	-	763	763
Overdue more than 360 days	-	-	1,833	1,833
	68,223	455	3,504	72,182
Loss allowance	(231)	(7)	(2,490)	(2,728)
Carrying amount	67,992	448	1,014	69,454

(c) Key assumptions and judgments for estimating the loan impairment

The Bank estimates ECL for significant loans in Stage 3 based on an individual review of each loan and estimation of its future cash flows. This estimate of future cash flows is dependent on factors such as the estimated value of underlying collateral and delay of 12 to 48 months in obtaining proceeds from the foreclosure of collateral. The Bank then calculates the net present value of these cash flows using a discount rate which equates to the original effective interest rate of the loan, in order to determine the required amount of ECL.

(d) Collateral held and other credit enhancements

The following table sets out information on loans to customers that are credit-impaired (Stage 3 and POCI) and related collateral held in order to mitigate potential losses as at December 31, 2024. The fair value of collaterals is updated as at the reporting date.

	Fair value of collateral held					
	Gross carrying amount	Cash and deposits	Motor vehicles	Real estate	Precious metals	Total
Loans to corporate customers						
Corporate loans	15,619	-	170	7,590	-	7,760
Loans to individuals						
Entrepreneur loans	12,040	-	605	3,662	4	4,271
Consumer loans	8,702	1,370	2	93	1	1,466
Mortgage loans	2,619	-	-	1,431	-	1,431
Total credit impaired loans to customers	38,980	1,370	777	12,776	5	14,928

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The following table sets out information on loans to customers that are credit-impaired (Stage 3 and POCI) and related collateral held in order to mitigate potential losses as at December 31, 2023. The fair value of collaterals is updated as at the reporting date.

	Fair value of collateral held					Total
	Gross carrying amount	Cash and deposits	Motor vehicles	Real estate	Precious metals	
Loans to corporate customers						
Corporate loans	32,202	-	188	28,451	-	28,639
Loans to individuals						
Entrepreneur loans	7,674	-	248	6,261	-	6,509
Consumer loans	4,660	103	16	1,421	5	1,545
Mortgage loans	3,504	-	-	3,082	-	3,082
Total credit impaired loans to customers	48,040	103	452	39,215	5	39,775

The following table provides information on collateral securing loans to customers, net of impairment, by types of collateral as at December 31, 2024:

	Fair value of collateral held					Total
	Gross carrying amount	Cash and deposits	Motor vehicles	Real estate	Precious metals	
Loans to corporate customers						
Corporate loans	134,324	600	1,557	87,828	9,974	99,959
Loans to individuals						
Entrepreneur loans	473,005	250	15,681	158,748	4	174,683
Consumer loans	268,036	22,398	2	3,994	112	26,506
Mortgage loans	80,792	-	-	73,863	-	73,863
Total loans to customers	956,157	23,248	17,240	324,433	10,090	375,011

The following table provides information on collateral securing loans to customers, net of impairment, by types of collateral as at December 31, 2023:

	Fair value of collateral held					Total
	Gross carrying amount	Cash and deposits	Motor vehicles	Real estate	Precious metals	
Loans to corporate customers						
Corporate loans	136,191	1,376	1,571	120,270	12,974	136,191
Loans to individuals						
Entrepreneur loans	376,616	373	14,485	191,650	4	206,512
Consumer loans	209,988	17,218	26	7,732	9	24,985
Mortgage loans	72,182	-	-	72,182	-	72,182
Total loans to customers	794,977	18,967	16,082	391,834	12,987	439,870

As at December 31, 2024 the Bank held loans to customers in the amount of AZN 23,248 thousand (December 31, 2023: AZN 18,697 thousand) for which no loss allowance was recognized as they are collateralized fully by cash and deposits.

Reposessed collateral

During the year ended December 31, 2024, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AZN 3,101 thousand (December 31, 2023: AZN 3,907 thousand) and recognized them as assets held for sale. The Bank's policy is to sell these as soon as possible. Assets held for sale are comprised of real estate and other assets. See Note 18.

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(e) Industry and geographical analysis of the loan portfolio

Loans to individuals were issued primarily for consumer purposes. Loans to corporate customers and entrepreneurs were issued primarily to customers located within the Republic of Azerbaijan who operate in the following economic sectors:

	December 31, 2024	%	December 31, 2023	%
Corporate loans				
- trade and services	87,843	9.2	81,716	10.3
- manufacturing	15,937	1.7	24,173	3.0
- financial services	11,172	1.2	6,053	0.8
- agriculture	4,285	0.4	10,629	1.3
- construction	5,922	0.6	8,567	1.1
- others	9,166	1.0	5,053	0.6
Total corporate loans	134,325	14.1	136,191	17.1
Loans to individuals				
- entrepreneurs	473,005	49.5	376,616	47.4
- consumer loans	264,227	27.6	208,340	26.2
- mortgage loans	80,791	8.4	72,182	9.1
- auto loans	-	-	-	-
- credit cards	3,809	0.4	1,648	0.2
Total loans to individuals	821,832	85.9	658,786	82.9
Total loans to customers	956,157	100.0	794,977	100.0
Allowance for ECL	(40,548)		(39,084)	
Net loans to customers	915,609		755,893	

(f) Significant credit exposures

As at December 31, 2023, the Bank had thirty seven borrowers (December 31, 2023: thirty-three borrowers) with gross loan balances exceeding AZN 1,000 thousand. The gross value of these loans as at December 31, 2024 was AZN 62,292 thousand or 7% of the total loans to customers (December 31, 2023: AZN 100,446 thousand or 13%).

(g) Loan modification

During the year ended December 31, 2024 and 2023 the Bank restructured loans in the amount of AZN 4,790 thousand and AZN 3,124 thousand, respectively.

(h) Loan maturities

The maturity of the loan portfolio is presented in Note 26, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

(i) Loan collection fees

Loan collection fees in the amount of AZN 925 thousand and AZN 1,186 thousand represent fees paid for collection of problematic loans during the year ended December 31, 2024 and 2023, respectively.

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15. INVESTMENT SECURITIES

	December 31, 2024	December 31, 2023
Investment securities measured at amortized cost	4,300	6,985
Investment securities at FVOCI	866	-
Total investment securities	5,166	6,985
Less: Allowance for expected credit loss	-	-
Total investment securities	5,166	6,985
	December 31, 2024	December 31, 2023
Corporate bonds		
Bonds of the financial institutions	3,461	5,285
US Treasury Bills	1,705	1,700
Total investment securities	5,166	6,985

As at December 31, 2024 there is no impairment allowance for investment securities (December 31, 2023: nil), as the ECL of these balances represents an insignificant amount.

As at December 31, 2024, the debt securities measured at amortized cost included US Treasury bills, carrying annual interest rates of 4.00% with maturities in December 2025, corporate bonds of foreign and local companies “Pasha Yatırım Bankası” A.Ş and European Investment Bank carrying an annual interest rate of 6.00% and 4.50% with maturity in November 2025 and October 2025, respectively.

As at December 31, 2023, the debt securities measured at amortized cost included US Treasury bills, carrying annual interest rates of 4.30% with maturities in December 2025, corporate bonds of foreign and local companies “TBC bank” JSC, “Pasha Yatırım Bankası” A.Ş, European Investment Bank carrying an annual interest rate of 5.75%, 5.75%, 2.56% with maturity in June 2024, June 2024, October 2025, respectively.

There was no fair value gain or loss recognized for debt securities at FVOCI for the year ended December 31, 2024 (2023: gain in the amount of AZN 220 thousand).

As of December 31, 2024, the Bank had three corporate bonds measured at amortized cost (two Level 1 instruments with quoted market prices and one Level 2 instrument valued using observable inputs) (December 31, 2023: four corporate bonds: classified as Level 1).

Also, as of December 31, 2024 the Bank had one Level 2 bond measured at fair value through other comprehensive income (FVOCI) (December 31, 2023: nil).

As at December 31, 2024, accrued interest income included in investment securities amounted to AZN 38 thousand (December 31, 2023: AZN 2 thousand).

Loss allowance

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

	Stage 1	Total
ECL allowance value as at January 1, 2023	(32)	(32)
Net change in ECL value	98	98
ECL on investment securities at FVOCI	(66)	(66)
As at December 31, 2023	-	-

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

	Stage 1	Total
Gross carrying value as at January 1, 2024	6,985	6,985
Net change in carrying value	(1,819)	(1,819)
As at December 31, 2024	5,166	5,166

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

	<u>Stage 1</u>	<u>Total</u>
Gross carrying value as at January 1, 2023	20,769	20,769
Net change in carrying value	<u>(13,784)</u>	<u>(13,784)</u>
As at December 31, 2023	<u>6,985</u>	<u>6,985</u>

Credit quality analysis

The following table sets out information about the credit quality of investment securities measured at amortized cost and FVOCI as at December 31, 2024 and 2023. Explanation of the term “Stage 1” included in Note 3.

	December 31, 2024		December 31, 2023	
	<u>Stage 1</u>	<u>Total</u>	<u>Stage 1</u>	<u>Total</u>
<i>Debt investment securities at</i>				
Rated from A- to AAA	3,446	3,446	5,280	5,280
Rated from BBB- to BBB+	854	854	-	-
Rated from BB- to BB+	-	-	1,705	1,705
Rated from B to B+	866	866	-	-
Not rated	-	-	-	-
Carrying amount	<u>5,166</u>	<u>5,166</u>	<u>6,985</u>	<u>6,985</u>

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16. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Furniture and	Computers and	Vehicles	Other fixed	Leasehold	Intangible	Total
Cost amount								
Balance at January 1, 2024	3,169	5,175	12,667	1,744	217	14,416	15,511	52,899
Additions	-	847	943	261	-	329	2,444	4,824
Disposals	-	(114)	(11)	(121)	(20)	-	-	(266)
Balance at December 31, 2024	3,169	5,908	13,599	1,884	197	14,745	17,955	57,457
Depreciation and amortization								
Balance at January 1, 2024	(1,803)	(2,325)	(9,524)	(595)	(115)	(2,859)	(5,976)	(23,197)
Depreciation and amortization for the year	(158)	(671)	(1,291)	(166)	(41)	(1,783)	(1,565)	(5,675)
Disposals	-	97	11	38	15	-	-	161
Balance at December 31, 2024	(1,961)	(2,899)	(10,804)	(723)	(141)	(4,642)	(7,541)	(28,711)
Carrying amount								
At December 31, 2024	1,208	3,009	2,795	1,161	56	10,103	10,414	28,746
Cost amount								
Balance at January 1, 2023	3,169	4,977	11,164	1,589	204	14,246	14,126	49,475
Additions	-	207	1,507	402	13	170	3,027	5,326
Disposals	-	(9)	(4)	(247)	-	-	(1,642)	(1,902)
Balance at December 31, 2023	3,169	5,175	12,667	1,744	217	14,416	15,511	52,899
Depreciation and amortization								
Balance at January 1, 2023	(1,645)	(1,883)	(7,706)	(622)	(74)	(1,860)	(5,902)	(19,692)
Depreciation and amortization for the year	(158)	(451)	(1,822)	(160)	(41)	(999)	(1,502)	(5,133)
Disposals	-	9	4	187	-	-	1,428	1,628
Balance at December 31, 2023	(1,803)	(2,325)	(9,524)	(595)	(115)	(2,859)	(5,976)	(23,197)
Carrying amount								
At December 31, 2023	1,366	2,850	3,143	1,149	102	11,557	9,535	29,702

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As at December 31, 2024 and 2023, included in the closing balance of property, equipment and intangible assets were fully depreciated assets still in use with the total initial cost of AZN 20,567 thousand and AZN 6,804 thousand, respectively.

As at December 31, 2023 and 2022, included in property, equipment and intangible assets insured in the amount of AZN 18,000 thousand and AZN 11,678 thousand, respectively.

As at December 31, 2024 and 2023, property, equipment and intangible assets were not pledged as collateral for borrowings.

17. RIGHT-OF-USE ASSETS

	Office buildings and infrastructure	Total
Cost amount		
Balance at January 1, 2024	17,781	17,781
Additions	1,600	1,600
Modification	531	531
Disposals	(500)	(500)
Balance at December 31, 2024	19,412	19,412
Depreciation		
Balance at January 1, 2024	(7,876)	(7,876)
Depreciation for the year	(2,096)	(2,096)
Elimination on disposals	500	500
Balance at December 31, 2024	(9,472)	(9,472)
Carrying amount		
At December 31, 2024	9,940	9,940
Balance at January 1, 2023	16,239	16,239
Additions	1,542	1,542
Balance at December 31, 2023	17,781	17,781
Depreciation		
Balance at January 1, 2023	(5,812)	(5,812)
Depreciation for the year	(2,064)	(2,064)
Balance at December 31, 2023	(7,876)	(7,876)
Carrying amount		
At December 31, 2023	9,905	9,905

18. ASSETS HELD FOR SALE

During the years ended December 31, 2024 and 2023 the Bank received non-financial assets classified as held for sale by taking possession of collateral held as security against loans to customers. As at December 31, 2024 and 2023 the carrying amount of such assets amounted to AZN 5,056 thousand and AZN 6,925 thousand, respectively, net of change in fair value less costs to sell. Initially, it was intended that these assets would be recovered principally through a sale transaction within one year from the date of classification. However, during the year ended December 31, 2023 the market conditions that existed at the date the assets were classified initially as held for sale could not be sold within one year period. The Bank continues to actively market the assets held for sale at a price that is reasonable given the change in market conditions. During the year ended December 31, 2024, the Bank recognized fair value gain in the amount of AZN 323 thousand (December 31, 2023: fair value gain in the amount of AZN 217 thousand).

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Assets held for sale are comprised of the following assets:

	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Real estate	9,102	13,572
Other assets	10	9
Cumulative change in fair value less costs to sell	<u>(4,056)</u>	<u>(6,656)</u>
Balance at the end of the year	<u>5,056</u>	<u>6,925</u>

Analysis of movements in the cumulative change in fair value less costs to sell:

	<u>2024</u>	<u>2023</u>
Balance at the beginning of the year	(6,656)	(6,559)
Change in fair value of assets held for sale	(282)	(217)
Recovery	(41)	-
Write-offs due to sale	2,923	120
Balance at the end of the year	<u>(4,056)</u>	<u>(6,656)</u>

19. OTHER ASSETS

	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Settlements on monetary transfers	5,126	6,947
Amounts in course of settlement	6,182	1,834
Receivables from sale of repossessed assets	2,130	1,359
Others	1,097	865
Less: loss allowance for other financial assets	<u>(621)</u>	<u>(246)</u>
Total other financial assets	13,914	10,759
Prepayments for services	96	750
Prepayments for purchase of intangible assets	360	321
Prepayments for purchase of fixed assets	244	-
Others	84	137
Total other non-financial assets	784	1,208
Total other assets	<u>14,698</u>	<u>11,967</u>

Loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance of other assets. All balances relate to Stage 3.

	<u>2024</u>		<u>2023</u>	
	<u>Stage 3</u>	<u>Total</u>	<u>Stage 3</u>	<u>Total</u>
Other assets				
Balance at January 1	(246)	(246)	(246)	(246)
Net remeasurement of loss allowance	(284)	(284)	(127)	(127)
(Recovery)/Write off	(91)	(91)	127	127
Balance at December 31	<u>(621)</u>	<u>(621)</u>	<u>(246)</u>	<u>(246)</u>

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20. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	December 31, 2024	December 31, 2023
Current accounts and demand deposits		
- Corporate	63,453	584,814
- Retail	93,364	107,074
Term deposits		
- Retail	665,228	488,406
- Corporate	127,618	129,675
Total current accounts and deposits from customers	949,663	1,309,969

As at December 31, 2024, the Bank had thirty-seven customers (December 31, 2023: twenty-six customers), whose balances exceeded AZN 1,000 thousand. The total amount of these balances as at December 31, 2024 was AZN 448,410 thousand (December 31, 2023: AZN 887,205 thousand).

As at December 31, 2024, the Bank maintained customer deposit balances of AZN 59,914 thousand (December 31, 2023: AZN 32,939 thousand) that served as collateral for loans and unrecognized credit instruments granted by the Bank.

As at December 31, 2024 deposits secured by the Azerbaijan Deposit Insurance Fund included in current accounts and deposits from customers in the amount of AZN 650,227 thousand (December 31, 2023: AZN 359,971 thousand).

Included in current accounts and deposits from customers in the amount of AZN 15,359 thousand as at December 31, 2024 represent accrued interest payable (December 31, 2023: AZN 13,008 thousand).

21. BORROWED FUNDS AND SUBORDINATED BORROWINGS

	December 31, 2024	December 31, 2023
Subordinated borrowings	27,478	26,777
Borrowed funds		
Azerbaijan Mortgage and Credit Guarantee Fund	77,373	68,127
Entrepreneurship Development Fund	31,469	17,163
Azerbaijan State Agency on Agricultural Credits under the Central Bank of the Republic of Azerbaijan	4,387	4,374
	-	1,800
Total borrowed funds	113,229	91,464
Total borrowed funds and subordinated borrowings	140,707	118,241

Azerbaijan Mortgage and Credit Guarantee Fund

On February 17, 2006, the Bank signed a borrowing agreement with the Azerbaijan Mortgage and Credit Guarantee Fund, a programme under the auspices of the Central Bank of Azerbaijan Republic, for granting long-term mortgage loans to individuals. Under this programme, funds are made available to the Bank at an interest rate of 1-4% per annum and the Bank further on lends these funds to eligible borrowers at rates ranging between 4%-8% per annum. At December 31, 2024 the Bank had AZN 77,373 thousand (December 31, 2023: AZN 68,127 thousand) payable to the Azerbaijan Mortgage and Credit Guarantee Fund. There are no financial covenants with regard to borrowing from the Azerbaijan Mortgage and Credit Guarantee Fund that the Bank should comply with.

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Entrepreneurship Development Fund

On November 26, 2009, the Bank signed a credit agreement with the Entrepreneurship Development Fund, a programme under the auspices of the Ministry for Economy of the Republic of Azerbaijan, for the financing of small and medium-sized enterprises. Under this programme, funds are made available to the Bank at an interest rate of 1.0% per annum and the Bank further on lends these funds to eligible borrowers at rates not higher than 5.0% per annum. At December 31, 2024, the Bank had AZN 31,469 thousand (December 31, 2023: AZN 17,163 thousand) payable to the Entrepreneurship Development Fund. There are no financial covenants with regard to the borrowing from the Entrepreneurship Development Fund that the Bank should comply with.

Azerbaijan State Agency on Agricultural Credits under the Ministry of Agriculture

On September 30, 2015, the Bank signed a credit agreement with the Azerbaijan State Agency on Agricultural Credits, a programme under the auspices of the Ministry for Agriculture of the Republic of Azerbaijan, for the financing of small and medium-sized enterprises. Under this programme, funds are made available to the Bank at an interest rate of 1.0%-2.5% per annum and the Bank further on lends these funds to eligible borrowers at rates not higher than 6.0%-12.0% per annum. At December 31, 2024, the Bank had AZN 4,387 thousand (December 31, 2023: AZN 4,374 thousand) payable to the Azerbaijan State Agency on Agricultural Credits under the Ministry of Agriculture. There are no financial covenants with regard to the borrowing from the Azerbaijan State Agency on Agricultural Credits under the Ministry of Agriculture that the Bank should comply with.

Central Bank of the Republic of Azerbaijan

During the years ended December 31, 2020 and 2019 the Bank received borrowings from CBAR in the amount of AZN 2,977 thousand and AZN 4,685 thousand with an annual interest rate of 0.1% per annum for 5 years under the Decree. The interest rate of borrowings received from the CBAR for the purpose of financing the restructured loans was below market rate as at the date of origination, therefore the Bank initially recognized these at fair value using existing lending rate of CBAR. The carrying value of these borrowings as at December 31, 2024 was nil (December 31, 2023: AZN 1,800 thousand).

Subordinated borrowings

As at December 31, 2024, subordinated borrowings included a loan given by a non-related party in the amount of AZN 27,478 thousand (December 31, 2023: AZN 26,777 thousand) maturing in 2028 (December 31, 2023: 2028) and carried an annual interest rate of 2.75% (December 31, 2023: 2.75%). In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Bank.

As at December 31, 2024, included in borrowed funds and subordinated borrowings AZN 363 thousand and AZN 1,979 thousand represent accrued interest payable, respectively (December 31, 2023: AZN 305 thousand and AZN 1,278 thousand, respectively).

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Borrowed Funds	Subordinated borrowings	Total
Balance at January 1, 2024	91,464	26,777	118,241
Changes from financing cash flows			
Receipt	43,052	-	43,052
Repayment	(21,345)	-	(21,345)
Total changes from financing cash flows	21,707	-	21,707
Other changes			
Interest expense	2,991	701	3,692
Interest paid	(2,933)	-	(2,933)
Balance at December 31, 2024	113,229	27,478	140,707

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	Borrowed Funds	Subordinated borrowings	Total
Balance at January 1, 2023	87,177	36,021	123,198
Changes from financing cash flows			
Receipt	22,940	-	22,940
Repayment	(18,920)	-	(18,920)
Total changes from financing cash flows	4,020	-	4,020
Other changes			
Transfer to other liabilities (Note 2(d))	-	(10,177)	(10,177)
Interest expense	2,834	933	3,767
Interest paid	(2,567)	-	(2,567)
Balance at December 31, 2023	91,464	26,777	118,241

22. LEASE LIABILITY

	December 31, 2024	December 31, 2023
Lease liability (current)	2,695	2,843
Lease liability (non-current)	9,615	9,203
Total lease liability	12,310	12,046

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

	Minimum lease payments due		
	Within one year	One to ten years	Total
Lease payments	3,182	12,213	15,395
Finance charges	(487)	(2,598)	(3,085)
Net present value as at December 31, 2024	2,695	9,615	12,310

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

	Minimum lease payments due		
	Within one year	One to ten years	Total
Lease payments	2,995	12,950	15,945
Finance charges	(152)	(3,747)	(3,899)
Net present value as at December 31, 2023	2,843	9,203	12,046

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

	<u>Amount</u>
Balance as at January 1, 2023	11,805
Cash flows	
Repayment of principal	(1,301)
Interest paid	<u>(1,734)</u>
Non-cash changes	
New leases	191
Interest expense	1,734
Modifications	<u>1,351</u>
Balance as at December 31, 2023	<u>12,046</u>
Cash flows	
Repayment of principal	(2,040)
Interest paid	<u>(1,240)</u>
Non-cash changes	
New leases	1,600
Interest expense	1,413
Modifications	<u>531</u>
Balance as at December 31, 2024	<u>12,310</u>

23. OTHER LIABILITIES

	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Settlements with employees	1,983	3,430
Settlement on other operations	5,465	3,105
Matured subordinated borrowing	9,780	9,780
Derivative financial instruments (see Note 7)	4,015	2,803
Accrued expenses	1,274	1,884
Payables to Deposit Insurance Fund	1,060	951
Compensation payables related to COVID-19	350	351
Compensation payables	234	234
Others	10	94
Total other financial liabilities	<u>24,171</u>	<u>22,632</u>
Other taxes payable	2,905	3,308
Other non-financial liabilities	102	68
Total other non-financial liabilities	<u>3,007</u>	<u>3,376</u>
Total other liabilities	<u>27,178</u>	<u>26,008</u>

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24. SHARE CAPITAL AND RESERVES

(a) Issued capital

As at December 31, 2024 the authorized, issued and outstanding share capital comprises 189,000,000 ordinary shares (December 31, 2023: 189,000,000). All shares have a nominal value of AZN 2 per share. During the year ended December 31, 2024 and 2023 no shares were issued or paid.

On March 2022 the sole shareholder of “Topaz Investments Limited” CJSC sold all shares of the Bank owned by “Topaz Investments Limited” CJSC in the following order:

179,019,176 (98.94%) shares to Ms. Marina Kulishova;

1,808,275 (0.96%) shares to Mr. Anar Hasanov.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of the Azerbaijan Republic. The Bank is not allowed to pay dividends if net assets are less than share capital. There were no dividends declared and paid by the Bank during 2024 (December 31, 2023: nil).

25. EARNINGS PER SHARE

Basic and diluted earnings per share

The calculation of basic earnings per share as at December 31, 2024 is based on the earnings attributable to ordinary shareholders of AZN 39,333 thousand (2023: AZN 14,017 thousand), and a weighted average number of ordinary shares outstanding of 189,000,000 (December 31, 2023: 189,000,000) calculated as follows.

	2024	2023
Net earnings attributable to ordinary shareholders	42,763	14,017
Weighted average number of ordinary shares for the year ended December 31 (thousands of shares)	189,000	189,000
Basic and diluted earnings per share (AZN)	0.23	0.07

26. RISK MANAGEMENT, CORPORATE GOVERNANCE AND INTERNAL CONTROL

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

(a) Corporate governance framework

The Bank is established as an open joint-stock company in accordance with Azerbaijani law. The supreme governing body of the Bank is the General Shareholders' meeting that is called for annual or extraordinary meetings. The General Shareholders' meeting makes strategic decisions on the Bank's operations.

The General Shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Bank's activities.

Azerbaijani legislation and the charter of the Bank establish lists of decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Supervisory Board.

As at December 31, 2024 the Supervisory Board included:

Marina Kulishova – Chair of the Supervisory Board;

Andrew Pospelovsky – Member of the Supervisory Board;

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Thomas Engelhardt – Member of Supervisory Board.

General activities of the Bank are managed by the collective executive body of the Bank. The General Shareholders' meeting elects the Management Board. The executive body of the Bank is responsible for implementation of decisions of the General Shareholders' meeting and the Supervisory Board of the Bank. Executive body of the Bank reports to the Supervisory Board of the Bank and to the general shareholders' meeting.

As at December 31, 2024 the Management Board included:

Anar Hasanov – Chairman of the Management Board;

Emil Dushdurov – Deputy Chairman of the Management Board;

Elshan Pirmaliyev – Deputy Chairman of the Management Board;

Sabuhi Suleymanli – Deputy Chairman of the Management Board;

Gunay Jalilova – Deputy Chair of the Management Board.

(b) Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintaining of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Bank's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Bank developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the recording, reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans;
- training and professional development;
- ethical and business standards and;
- risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Bank put in place a system of automated controls.

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The internal control system in the Bank comprises:

- the Supervisory Board and its committees;
- the Management Board;
- the Finance Director;
- the risk management function;
- the security function, including IT security;
- the human resource function;
- the internal audit department;
- the internal control (compliance) function;
- other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:
 - heads of branches and heads of business units;
 - business processes managers;
 - division responsible for compliance with anti-money laundering requirements;
 - professional securities market participant controller – an executive officer responsible for compliance with the requirements for securities market participants;
 - the legal officer – an employee responsible for compliance with the legal and regulatory requirements;
 - other employees with control responsibilities.

The Internal Audit function is independent of management and reports directly to the Audit Committee and Supervisory Board. The results of Internal Audit reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Supervisory Board and senior management of the Bank.

Compliance with the Bank’s standards is supported by a program of periodic reviews undertaken by Internal Audit.

The main functions of internal audit department include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures;
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit organization (methods, programs, rules and procedures for banking operations and transactions, and for the management of banking risks);
- audit of reliability of internal control system over automated information systems;
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information;
- audit of applicable methods of safekeeping the credit organization’s property;
- assessment of economic reasonability and efficiency of operations and other deals;
- audit of internal control processes and procedures;
- audit of internal control service and risk management service.

The Bank complies with the CBAR requirements related to risk management and internal control systems, including requirements related to the internal audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

(c) Risk management policies and procedures

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

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

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

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank operates within established risk parameters.

The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly to the Supervisory Board.

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

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Management Board.

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

(d) Market risk

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

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

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

(e) Interest rate risk

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

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Interest rate gap analysis

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

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non- interest bearing	Carrying amount
December 31, 2024							
ASSETS							
Cash and cash equivalents	247,095	20,041	-	-	-	-	267,136
Due from banks and other financial institutions	-	8,934	1,870	1,275	-	1,640	13,719
Loans to customers	43,806	155,777	197,137	457,385	61,504	-	915,609
Investment securities	-	-	4,257	850	-	59	5,166
Other financial assets	-	-	-	-	-	13,914	13,914
Total financial assets	290,901	184,752	203,264	459,510	61,504	15,613	1,215,544
LIABILITIES							
Deposits and balances from banks	28	-	-	-	-	-	28
Current accounts and deposits from customers	71,167	108,952	434,483	203,369	3	131,689	949,663
Other borrowed funds	877	1,123	5,490	30,853	74,886	-	113,229
Subordinated borrowings	-	-	-	27,478	-	-	27,478
Lease liability	228	456	2,014	9,236	376	-	12,310
Other financial liabilities	-	-	-	-	-	24,171	24,171
Total financial liabilities	72,300	110,531	441,987	270,937	75,265	155,860	1,126,879
Net liquidity gap	218,601	74,221	(238,723)	188,574	(13,761)	(140,247)	88,665
	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non- interest bearing	Carrying amount
December 31, 2023							
ASSETS							
Cash and cash equivalents	651,042	19,944	-	-	-	51,165	722,151
Due from banks and other financial institutions	-	-	8,866	-	-	765	9,631
Loans to customers	38,381	75,665	274,981	319,177	47,689	-	755,893
Investment securities	10	-	3,417	3,558	-	-	6,985
Other financial assets	-	-	-	-	-	10,759	10,759
Total financial assets	689,433	95,609	287,264	322,735	47,689	62,689	1,505,419
LIABILITIES							
Current accounts and deposits from customers	72,561	53,001	394,988	144,952	9	644,458	1,309,969
Other borrowed funds	1,496	2,380	12,155	24,311	51,122	-	91,464
Subordinated borrowings	-	-	-	26,777	-	-	26,777
Lease liability	258	501	2,084	8,809	394	-	12,046
Other financial liabilities	-	-	-	-	-	22,632	22,632
Total financial liabilities	74,315	55,882	409,227	204,849	51,525	667,090	1,462,888
Net liquidity gap	615,118	39,727	(121,963)	117,886	(3,836)	(604,401)	42,531

Average effective interest rates

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

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	2024 Average effective interest rate, %			2023 Average effective interest rate, %				Other currencies
	AZN	USD	EUR	AZN	USD	EUR	RUB	
Interest-bearing assets								
Cash and cash equivalents	7.26%	4.10%	-	6.78%	4.08%	3.10%	13.40%	3.50%
Due from banks and other financial institutions	-	7.23%	4%	-	4.25%	5.00%	-	-
Loans to customers	15.76%	6.47%	7.00%	15.51%	5.95%	5.48%	-	-
Investment securities	-	5.76%	4.50%	-	5.27%	2.56%	-	-
Interest-bearing liabilities								
Current accounts and deposits from customers	7.82%	2.20%	1.99%	8.44%	2.43%	2.00%	-	-
Other borrowed funds	2.84%	-	-	2.93%	-	-	-	-
Subordinated borrowings	-	2.75%	-	-	2.75%	-	-	-
Lease liability	10%	-	-	10%	-	-	-	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at December 31, 2024 and 2023 is as follows:

	December 31, 2024	December 31, 2023
100 bp parallel fall	(709)	(340)
100 bp parallel rise	709	340

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

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

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

	AZN	USD	EUR	RUB	Other Currencies	Total
ASSETS						
Cash and cash equivalents	141,077	118,533	4,655	1,361	1,510	267,136
Due from banks and other financial institutions	-	10,132	3,587	-	-	13,719
Loans to customers	871,500	44,092	17	-	-	915,609
Investment securities	-	3,426	1,740	-	-	5,166
Other financial assets	12,628	584	702	-	-	13,914
Total financial assets	1,025,205	176,767	10,701	1,361	1,510	1,215,544
Swap agreements	-	18,700	-	-	-	18,700
LIABILITIES						
Deposits and balances from banks	-	-	3	25	-	28
Current accounts and deposits from customers	737,550	200,419	9,652	1,170	872	949,663
Other borrowed funds	113,229	-	-	-	-	113,229
Subordinated borrowings	-	27,478	-	-	-	27,478
Lease liability	12,310	-	-	-	-	12,310
Other financial liabilities	8,855	15,105	40	171	-	24,171
Total financial liabilities	871,944	243,002	9,695	1,366	872	1,126,879
Swap agreements	18,700	-	-	-	-	18,700
Non-deliverable forward	(47,600)	47,600	-	-	-	-
Net position	86,961	65	1,006	(5)	638	88,665

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

	AZN	USD	EUR	RUB	Other currencies	Total
ASSETS						
Cash and cash equivalents	135,447	8,194	41,797	358,289	178,424	722,151
Due from banks and other financial institutions	-	3,759	5,872	-	-	9,631
Loans to customers	700,888	54,917	88	-	-	755,893
Investment securities	-	5,108	1,877	-	-	6,985
Other financial assets	10,539	203	17	-	-	10,759
Total financial assets	846,874	72,181	49,651	358,289	178,424	1,505,419
Swap agreements	-	60,603	-	-	-	60,603
LIABILITIES						
Current accounts and deposits from customers	629,539	130,855	13,502	357,728	178,345	1,309,969
Other borrowed funds	91,464	-	-	-	-	91,464
Subordinated borrowings	-	26,777	-	-	-	26,777
Lease liability	12,046	-	-	-	-	12,046
Other financial liabilities	12,357	10,241	34	-	-	22,632
Total financial liabilities	745,406	167,873	13,536	357,728	178,345	1,462,888
Swap agreements	60,603	-	-	-	-	60,603
Non-deliverable forward	(40,800)	40,800	-	-	-	-
Net position	65	5,711	36,115	561	79	42,531

A weakening of the AZN, as indicated below, against the following currencies at December 31, 2024 and 2023, would have decreased equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

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	December 31, 2024	December 31, 2023
20% appreciation of USD against AZN	10	914
20% appreciation of EUR against AZN	161	5,778

A strengthening of the AZN against the above currencies at December 31, 2024 and 2023 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(d) Credit risk

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

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (corporate and individual);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Management Department and a second opinion is given accompanied by verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Retail loan credit applications are reviewed by the Retail Lending Department through the use of assessment of eligibility to each loan product criteria and application data verification procedures developed together with the Risk Management Department.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks.

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

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	December 31, 2024	December 31, 2023
ASSETS		
Cash and cash equivalents (excluding cash on hand)	237,939	697,969
Due from banks and other financial institutions	13,719	9,631
Loans to customers (excluding cash deposits and precious metals)	882,271	723,939
Investment securities (excluding equity securities)	5,166	6,985
Other financial assets	13,914	10,759
Total maximum exposure	1,153,009	1,449,283

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Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans to banks, except when securities are held as part of reverse repurchase and securities borrowing activities. For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 14.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See the accounting policy in Note 3.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure.

The Bank uses two criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD);
- backstop of 30 days past due, except for transactions with financial institutions and issuers of securities, for which a backstop of 1-7 days past due is applied.

Generating the term structure of PD

The Bank collects performance and default information about its credit risk by type of product as well as by borrower's segment. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region.

What is considered significant will differ for different types of lending, in particular between corporate and retail.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, the following qualitative and quantitative criteria exist:

- the presence of the fact of overdue debt for 31-90 days for all segments except transactions with financial institutions and issuers of securities;
- the presence of the fact of debt overdue by 1-7 working days for transactions with financial institutions and issuers of securities;
- the presence of the change of terms of a financial instrument contract resulted not due to the borrower's inability to perform the obligations specified in the contract, and not due to a deterioration in the credit quality of the borrower (referred to as “good” restructuring ”);
- for corporate sector, the presence of a significant increase in credit risk under other agreements of the borrower;
- cured Stage 3 exposure transferred to Stage 2, which is not yet passed probation period.

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Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Due dates are determined without considering any grace period that might be available to the borrower; and quantitative criteria (only for financial institutions and issuers of securities):

- the relative change in the external rating at the reporting date compared to the external rating at the recognition date according to the criteria given in Table 1.

Table 1: Criteria for determining a significant increase in credit risk depending on the value of the external rating upon initial recognition.

	Counterparty external rating at initial recognition			Significant increase in credit risk assigned:
	Moody's	Fitch	S&P	
1	AAA	AAA	AAA	Low credit risk: criterion is not applied
2	Aa1	AA+	AA+	
3	Aa2	AA	AA	
4	Aa3	AA-	AA-	
5	A1	A+	A+	
6	A2	A	A	
7	A3	A-	A-	Decrease of rating by 2 notches
8	Baa1	BBB+	BBB+	
9	Baa2	BBB	BBB	
10	Baa3	BBB-	BBB-	
11	Ba1	BB+	BB+	
12	Ba2	BB	BB	
13	Ba3	BB-	BB-	Decrease of rating by 1 notch
14	B1	B+	B+	
15	B2	B	B	
16	B3	B-	B-	
17	Caa1			
18	Caa2			
19	Caa3			
20	Ca-C	CCC-C	CCC-C	
21	D	D	D	

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as a 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist.

In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behavior to provide evidence that its credit risk has declined sufficiently. Probation criteria for recovery and transfer of financial instruments to Stage 1 is not delinquent by more than 30 days for six consecutive reporting months.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired.

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Definition of default

The Bank considers a financial asset to be in default when:

- there are more than 90 calendar days of overdue debt at the reporting date for all segments except transactions with financial institutions and issuers of securities;
- there are more than 7 working days of overdue debt at the reporting date for transactions with financial institutions and issuers of securities;
- there is default/forced restructuring due to the financial difficulties of the borrower (applicable except for transactions with financial institutions and securities). Default / forced restructuring refers to a change in the terms of a contract recognized as a forced restructuring by the Bank, which is a consequence of the borrower's inability to perform the obligations specified in the contract, and is caused by a deterioration in the credit quality of the borrower, where one of the indicators is the presence of more than 60 days delinquency the day before the restructuring (referred as “bad” restructuring”);
- there is revocation of the license and the introduction of an interim administration (applicable to financial institutions).

In assessing whether a borrower is in default, the Bank uses the qualitative indicators (e.g. overdue status and non-payment on another obligation of the same issuer/borrower to the Bank: for the corporate segment default is set on customer level, i.e. if one of the corporate customers has default under another agreement, all exposures are default).

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into expected credit loss impairment model in PD component level.

The Bank formulates one economic scenario: a base case. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the country where the Bank operates, such as the CBAR, State Statistic Committee and Ministry of Finance and selected private sector and academic forecasters.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments. Using an analysis of historical data, the Bank has estimated relationships between macroeconomic variables and default rates.

The key drivers depend on portfolio segment. The economic scenarios used as at December 31, 2024 and 2023 included the following key indicators for the Republic of Azerbaijan for the years ending December 31, 2024 through 2026.

Key driver	2024	2025	2026
Real GDP Growth	2.80%	2.30%	2.30%
Nominal GDP (in thousands AZN)	133,875	138,448	143,820
CPI Annual average, %	3.50%	5.00%	4.50%

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 4 years.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 3.

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The modification of contractual terms of a financial asset is an indicator of a significant increase in credit risk, unless the modification is default / forced restructuring which is an indicator of default of the financial asset. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to a 12-month ECL.

The Bank renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Bank’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and interest rate. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank’s forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank’s ability to collect interest and principal and the Bank’s previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower’s payment performance against the modified contractual terms and considers various behavioural indicators.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

The Bank calculates ECL for loans to customers portfolio on a collective basis and on an individual review basis for significant default loan exposure on customer level. Individual assessment incorporates estimation of probability-weighted recoverable amount. ECL on a collective basis is described below.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading “Generating the term structure of PD”.

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is the maximum amounts that may be drawn under the contract at the reporting date, if overdue days of the loan is less than 30 days as otherwise the card is blocked; and, in credit limits for business customers, if the credit limit is revolving. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of instrument type.

The groupings are subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

	Exposure	External benchmarks used	
		PD	LGD
Cash and cash equivalents (excluding cash on hand)	237,939	Moody's default study	Moody's recovery studies
Due from banks and other financial institutions	13,719	Moody's default study	Moody's recovery studies
Investment securities	5,166	Moody's default study	Moody's recovery studies
Other financial assets	13,914	Moody's default study	Moody's recovery studies

(e) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Supervisory Board.

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

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

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

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

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The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit-related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
LIABILITIES							
Deposits and balances from banks	28	-	-	-	-	28	28
Current accounts and deposits from customers	194,308	118,706	483,483	198,835	8	995,340	949,663
Other borrowed funds	1,143	1,655	7,878	42,443	113,904	167,023	113,229
Subordinated borrowings	-	-	-	29,747	-	29,747	23,478
Lease liability	295	585	2,302	11,759	454	15,395	12,310
Other financial liabilities	20,520	255	612	2,784	-	24,171	24,171
Total financial liabilities	216,294	121,201	494,275	285,569	114,366	1,231,704	1,126,879
Credit-related commitments	42,653	-	-	-	-	42,653	42,653

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
LIABILITIES							
Current accounts and deposits from customers	720,786	59,951	415,762	151,948	9	1,348,456	1,309,969
Other borrowed funds	1,719	2,820	14,165	32,272	78,073	129,049	91,464
Subordinated borrowings	-	-	-	29,747	-	29,747	26,777
Lease liability	258	512	2,226	12,164	785	15,945	12,046
Other financial liabilities	22,632	-	-	-	-	22,632	22,632
Total financial liabilities	745,395	63,283	432,153	226,131	78,867	1,545,829	1,462,888
Credit-related commitments	44,563	-	-	-	-	44,563	44,563

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

In accordance with Azerbaijani legislation, individuals and legal entities can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates in the above-undiscounted maturity tables. The Management of the Bank does not expect that individuals and legal entities withdraw their term deposits before their stated maturity dates. Also, the Bank developed a liquidity model to manage its liquidity. The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at December 31, 2024:

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	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	247,095	20,041	-	-	-	-	-	267,136
Due from banks and other financial institutions	-	5,566	5,513	2,045	-	595	-	13,719
Loans to customers	43,806	155,777	197,137	457,385	61,504	-	-	915,609
Investment securities	-	-	4,300	866	-	-	-	5,166
Other financial assets	12,484	1,128	97	184	21	-	-	13,914
Total financial assets	303,385	182,512	207,047	460,480	61,525	595	-	1,215,544
Deposits and balances from banks	28	-	-	-	-	-	-	28
Current accounts and deposits from customers	189,869	110,240	458,005	191,543	6	-	-	949,663
Other borrowed funds	877	1,123	5,490	30,853	74,886	-	-	113,229
Subordinated borrowings	-	-	-	27,479	-	-	-	27,478
Lease liability	228	456	2,014	9,236	376	-	-	12,310
Other financial liabilities	20,520	255	612	2,784	-	-	-	24,171
Total financial liabilities	211,522	112,074	466,121	261,894	75,268	-	-	1,126,879
Net position	91,863	70,438	(259,074)	198,586	(13,743)	595	-	88,665
Cumulative liquidity gap	91,863	162,301	(96,773)	101,813	88,070	88,665	88,665	

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	702,207	19,944	-	-	-	-	-	722,151
Due from banks and other financial institutions	-	-	8,866	-	-	765	-	9,631
Loans to customers	36,766	75,665	274,981	319,177	47,689	-	1,615	755,893
Investment securities	-	7	3,420	3,558	-	-	-	6,985
Other financial assets	9,406	8	128	1,198	19	-	-	10,759
Total financial assets	748,379	95,624	287,395	323,933	47,708	765	1,615	1,505,419
Current accounts and deposits from customers	717,019	53,001	394,988	144,952	9	-	-	1,309,969
Other borrowed funds	1,496	2,380	12,155	24,311	51,122	-	-	91,464
Subordinated borrowings	-	-	-	26,777	-	-	-	26,777
Lease liability	258	501	2,084	8,809	394	-	-	12,046
Other financial liabilities	22,632	-	-	-	-	-	-	22,632
Total financial liabilities	741,405	55,882	409,227	204,849	51,525	-	-	1,462,888
Net position	6,974	39,742	(121,832)	119,084	(3,817)	765	1,615	42,531
Cumulative liquidity gap	6,974	46,716	(75,116)	43,968	40,151	40,916	42,531	

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

The Bank calculates this mandatory liquidity ratio on a daily basis in accordance with the requirement of the CBAR. This ratio is represented by the instant liquidity ratio, which is calculated as the ratio of highly liquid assets to liabilities payable on demand based on statutory figures.

The Bank was in compliance with these ratios as at December 31, 2024 and 2023. The following table shows the mandatory liquidity ratios calculated as at December 31, 2024 and 2023.

	Requirement	2024 (unaudited)	2023 (unaudited)
Instant liquidity ratio	Not less than 30%	78.39%	81.08%
Liquidity coverage ratio	Not less than 80%	83.13%	84.96%

(f) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost-effectiveness and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.

The Bank manages operational risk by establishing internal controls that management determines to be necessary for each area of its operations.

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27. CAPITAL MANAGEMENT

The CBAR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBAR, banks have to maintain a ratio of capital to risk-weighted assets (statutory capital ratio) above the prescribed minimum level. As at December 31, 2024, this minimum level was 10% (December 31, 2023: 10%). The Bank was in compliance with the statutory capital ratio as at December 31, 2024 and 2023.

The Bank maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Bank provides the CBAR with information on mandatory ratios in accordance with set form. Risk department controls on a daily basis compliance with capital adequacy ratios.

In case values of capital adequacy ratios become close to set limits set by the CBAR and the Bank's internal policy this information is communicated to the Supervisory Board.

The calculation of capital adequacy based on requirements set by the CBAR was as follows:

	December 31, 2024 (unaudited)	December 31, 2023 (unaudited)
Total statutory capital	148,748	109,762
Risk-weighted assets	1,130,982	983,995
Capital adequacy ratio (%)	13.15%	11.15%

Credit-related commitments and guarantees

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

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

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

The contractual amounts of credit-related commitments are set out in the following table by category.

	December 31, 2024	December 31, 2023
Contracted amount		
Guarantees issued	12,388	9,168
Undrawn credit lines	30,265	35,395
Total credit-related commitments and guarantees	42,653	44,563
Provision	(658)	(632)

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

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The following tables show reconciliations from the opening to the closing balances of provisions. All balances relate to Stage 1.

	2024		2023	
	Stage 1	Total	Stage 1	Total
Provisions				
Balance at January 1	632	632	645	645
Net remeasurement of loss Allowance	26	26	(13)	(13)
Balance at December 31	658	658	632	632

28. CONTINGENCIES

(a) Insurance

The insurance industry in the Republic of Azerbaijan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

The Bank has obtained an international comprehensive banking risk insurance policy (“BBB” – Bankers Blanket Bond) covering professional activities and crimes, including electronic and computer crimes.

(b) Litigation

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

(c) Taxation contingencies

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

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

29. RELATED PARTY TRANSACTIONS

(a) Control relationships

The Bank was ultimately controlled by a single individual, Ms. Marina Kulishova.

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(b) Transactions with the members of the Supervisory Board and the Management Board and Directors

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

	2024	2023
Short-term employee benefits	(10,067)	(6,580)
Total short-term employee benefits	(10,067)	(6,580)

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

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

	2024	Average effective interest rate	2023	Average effective interest rate
Statement of financial Position				
Loans issued (gross)	250	11.2%	386	8.7%
Loan impairment Allowance	-	-	-	-
Customer accounts	2,008	9.8%	1,593	7.1%
Commitments on loans and undrawn credit lines	89	16%	44	13.9%
Other liability	1,930	-	2,434	-

Amounts included in profit or loss in relation to transactions with the members of the Supervisory Board and the Management Board for the year ended December 31, 2023 are as follows:

	2024	2023
Profit or loss		
Interest income calculated using the effective interest rate	17	27
Interest expense	(158)	(89)
Other general and administrative expenses	(137)	(340)
Impairment losses	-	-

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(c) Transactions with related parties

The outstanding balances and the related average effective interest rates as at December 31, 2024 and related profit or loss amounts of transactions for the year ended December 31, 2024 with other related parties are as follows:

	Ultimate controlling party		Other Shareholders		Companies UCP and other related parties		Total
		Average interest rate, %		Average interest rate, %		Average interest rate, %	
Statement of financial Position							
ASSETS							
Loan	3,910	5.5%	-	-	678	7.0%	4,588
LIABILITIES							
Customer accounts	50,595	8.6%	-	-	97,813	2.0%	148,408
Other liability	-	-	-	-	11	-	11
Profit (loss)							
Interest income	117	-	-	-	43	-	160
Interest expense	(4,558)	-	-	-	(2,080)	-	(6,638)
Fee com income	28	-	-	-	1,769	-	1,797
Other general and administrative expenses	-	-	-	-	(218)	-	(218)
Net gain on trading in Foreign currencies	517	-	-	-	4,555	-	5,072
Commitments on loans and unused credit lines	-	-	-	-	121	9%	121

The outstanding balances and the related average effective interest rates as at December 31, 2023 and related profit or loss amounts of transactions for the year ended December 31, 2023 with other related parties are as follows:

	Ultimate controlling party		Shareholders		Companies UCP and other related parties		Total
		Average interest rate, %		Average interest rate, %		Average interest rate, %	
Statement of financial Position							
ASSETS							
Other assets	-	-	-	-	103	-	103
LIABILITIES							
Customer accounts	20,119	8.57%	195	7.8%	268,330	1.01%	288,644
Other liability	28	-	15	-	-	-	43
Profit (loss)							
Interest income	60	-	-	-	26	-	86
Interest expense	(1,911)	-	-	-	(2,166)	-	(4,077)
Fee com income	10	-	-	-	43	-	53
Other general and administrative expenses	-	-	-	-	(251)	-	(251)
Net gain on trading in foreign currencies	40	-	-	-	43	-	83

The majority of balances resulting from transactions with related parties mature within two years. Transactions with related parties are not secured.

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30. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2024:

	Amortized cost	FVOCI	Total carrying amount	Fair Value
Cash and cash equivalents	267,136	-	267,136	267,136
Due from banks and other financial institutions	13,719	-	13,719	13,365
Loans to customers	915,609	-	915,609	919,214
Investment securities	4,300	866	5,166	4,922
Other financial assets	13,914	-	13,914	13,914
	1,214,678	866	1,215,544	1,218,551
Current accounts and deposits from customers	949,663	-	949,663	947,474
Other borrowed funds	113,229	-	113,229	113,229
Subordinated borrowings	27,478	-	27,478	27,478
Lease liability	12,310	-	12,310	12,310
Other financial liabilities	24,171	-	24,171	24,171
	1,126,851	-	1,126,851	1,124,662

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2023:

	Amortized Cost	Total carrying amount	Fair value
Cash and cash equivalents	722,151	722,151	722,151
Due from banks and other financial institutions	9,631	9,631	9,631
Loans to customers	755,893	755,893	755,893
Investment securities	6,985	6,985	6,985
Other financial assets	10,759	10,759	10,759
	1,505,419	1,505,419	1,505,419
Current accounts and deposits from customers	1,309,969	1,309,969	1,309,969
Other borrowed funds	91,464	91,464	91,464
Subordinated borrowings	26,777	26,777	26,777
Lease liability	12,046	12,046	12,046
Other financial liabilities	22,632	22,632	22,632
	1,462,888	1,462,888	1,462,888

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives like interest rate swaps.

For more complex instruments, the Bank uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain loans and securities for which there is no active market, certain over-the-counter structured derivatives, and retained interests in securitisations.

(b) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** quoted market price (unadjusted) in an active market for an identical instrument
- **Level 2:** inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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The following table analyses the fair value of financial instruments by the level in the fair value hierarchy into which each fair value measurement is categorized as at December 31, 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair values</u>	<u>Total carrying amount</u>
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED					
Cash and cash equivalents	267,136	-	-	267,136	267,136
Due from banks and other financial institutions	-	-	13,365	13,365	13,719
Loans to customers	-	-	919,214	919,214	915,609
Investment securities	3,351	793	-	4,144	4,300
Other financial assets	-	-	13,914	13,914	13,914
ASSETS MEASURED AT FAIR VALUE THROUGH OCI					
Investment securities (FVOCI)	-	778	-	778	866
LIABILITIES MEASURED AT FAIR VALUE					
Derivative financial liabilities	-	(4,015)	-	(4,015)	(4,015)
LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED					
Current accounts and deposits from customers	-	-	947,474	947,474	949,663
Other borrowed funds	-	-	113,229	113,229	113,229
Subordinated borrowings	-	-	27,478	27,478	27,478
Lease liability	-	-	12,310	12,310	12,310
Other financial liabilities	-	-	24,171	24,171	24,171

The following table analyses the fair value of financial instruments by the level in the fair value hierarchy into which each fair value measurement is categorized as at December 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair values</u>	<u>Total carrying amount</u>
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED					
Cash and cash equivalents	722,151	-	-	722,151	722,151
Due from banks and other financial institutions	-	-	9,631	9,631	9,631
Loans to customers	-	-	755,893	755,893	755,893
Investment securities	6,985	-	-	6,985	6,985
Other financial assets	-	-	10,759	10,759	10,759
LIABILITIES MEASURED AT FAIR VALUE					
Derivative financial liabilities	-	-	2,803	2,803	2,803
LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED					
Current accounts and deposits from customers	-	-	1,309,969	1,309,969	1,309,969
Other borrowed funds	-	-	91,464	91,464	91,464
Subordinated borrowings	-	-	26,777	26,777	26,777
Lease liability	-	-	12,046	12,046	12,046
Other financial liabilities	-	-	22,632	22,632	22,632

31. EVENTS AFTER THE REPORTING PERIOD

As at May 14, 2025, the Bank had not any material events after reporting period which should be disclosed in the note to these financial statements.