

# **“YELO BANK” OPEN JOINT STOCK COMPANY**

**The International Financial Reporting  
Standards Financial Statements  
and Independent Auditors’ Report**  
For the Year Ended December 31, 2023

# “YELO BANK” OPEN JOINT STOCK COMPANY

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**STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023**

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The following statement is made with a view to distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the financial statements of “Yelo Bank” Open Joint Stock Company (the “Bank”).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2023, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (“IFRS”).

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended December 31, 2023 were authorized for issue on April 22, 2024 by the Management Board of the Bank.

On behalf of the Executive Board:

  
**YELO BANK ASC**  
**Yelo**  
Mr. Anar Hasajev  
Chief Executive Officer  
April 22, 2024  
Baku, the Republic of Azerbaijan

  
Mr. Emil Dushdurov  
Chief Financial Officer  
April 22, 2024  
Baku, the Republic of Azerbaijan

  
Mr. Ayaz Ismayilov  
Chief Accountant  
April 22, 2024  
Baku, the Republic of Azerbaijan

## **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, 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### ***Basis for Opinion***

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

### ***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 IFRSs, 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.

*Baker Tilly Azerbaijan*

April 22, 2024

Baku, the Republic of Azerbaijan

**“YELO BANK” OPEN JOINT-STOCK COMPANY**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2023**

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
Interest income	4, 30	110,545	80,138
Interest expense	4, 30	(44,066)	(32,865)
<b>Net interest income</b>		<b>66,479</b>	<b>47,273</b>
Fee and commission income	5, 30	8,448	6,026
Fee and commission expense	6, 30	(11,040)	(7,250)
<b>Net fee and commission loss</b>		<b>(2,592)</b>	<b>(1,224)</b>
Net gain on trading in foreign currencies		3,326	5,353
Net result from foreign currency derivatives	7, 32	(3,257)	(3,910)
Net foreign exchange translation loss		(79)	(114)
Loan collection fees	14	(1,186)	(1,914)
Other operating income		821	864
<b>Operating income</b>		<b>63,512</b>	<b>46,328</b>
Recovery of expected credit losses on financial assets	8, 30	10,114	11,879
Personnel expenses	9, 30	(36,969)	(32,857)
General and administrative expenses	10, 30	(22,203)	(19,710)
Recovery/(charge) of expected credit losses on loan commitments and financial guarantees		13	(26)
Change in fair value of assets held for sale	18	(217)	150
Fair value loss on initial recognition of financial assets		(233)	(140)
<b>Profit before income tax</b>		<b>14,017</b>	<b>5,624</b>
Income tax expense	11	-	-
<b>Net profit for the year</b>		<b>14,017</b>	<b>5,624</b>
<b>Other comprehensive income/(loss)</b>			
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of investment securities		220	(220)
(Charge)/recovery of expected credit losses on investment securities at OCI		(66)	66
<b>Net other comprehensive income/(loss)</b>		<b>154</b>	<b>(154)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>14,171</b>	<b>5,470</b>
<b>Earnings per share</b>			
Basic and diluted (expressed in AZN)	25	0.07	0.03

The financial statements as set out on pages 8 to 87 were approved by management on April 22, 2024 and were signed on its behalf by:

  
**Mr. Anar Hasanov**  
 Chief Executive Officer  
 April 22, 2024  
 Baku, the Republic of Azerbaijan

  
**Mr. Emil Dushdurov**  
 Chief Financial Officer  
 April 22, 2024  
 Baku, the Republic of Azerbaijan

  
**Mr. Ayaz Ismayilov**  
 Chief Accountant  
 April 22, 2024  
 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, 2023

(In thousands of Azerbaijan Manats, unless otherwise indicated)

	Notes	December 31, 2023	December 31, 2022
<b>ASSETS</b>			
Cash and cash equivalents	12	686,166	105,069
Due from banks	13	45,616	23,736
Loans to customers	14, 30	755,893	595,960
Investment securities	15	6,985	20,737
Property, equipment and intangible assets	16	29,702	29,783
Right-of-use assets	17	9,905	10,427
Assets held for sale	18	6,925	8,262
Other assets	19, 30	11,967	9,981
<b>Total assets</b>		<b>1,553,159</b>	<b>803,955</b>
<b>LIABILITIES</b>			
Current accounts and deposits from customers	20, 30	1,309,969	582,612
Borrowed funds	21	91,464	87,177
Subordinated borrowings	21	36,954	36,021
Lease liability	22	12,046	11,805
Provisions		632	645
Other liabilities	23, 30	15,831	13,603
<b>Total liabilities</b>		<b>1,466,896</b>	<b>731,863</b>
<b>EQUITY</b>			
Share capital	24	378,000	378,000
Share premium		401	401
Other reserves		-	(154)
Accumulated deficit		(292,138)	(306,155)
<b>Total equity</b>		<b>86,263</b>	<b>72,092</b>
<b>Total liabilities and equity</b>		<b>1,553,159</b>	<b>803,955</b>


  
 Mr. Anar Huseynov  
 Chief Executive Officer  
 April 22, 2024  
 Baku, the Republic of Azerbaijan


  
 Mr. Emil Dushdurov  
 Chief Financial Officer  
 April 22, 2024  
 Baku, the Republic of Azerbaijan


  
 Mr. Ayaz Ismayilov  
 Chief Accountant  
 April 22, 2024  
 Baku, the Republic of Azerbaijan

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, 2023**

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

	Share capital	Share premium	Other reserve	Accumulated deficit	Total equity
<b>Balance as at January 1, 2022</b>	378,000	401	-	(311,779)	66,622
<b>Total comprehensive income</b>					
Net profit for the year	-	-	-	5,624	5,624
Other comprehensive loss for the year	-	-	(154)	-	(154)
<b>Total comprehensive income for the year</b>	-	-	(154)	5,624	5,470
<b>Balance as at December 31, 2022</b>	378,000	401	(154)	(306,155)	72,092
<b>Total comprehensive income</b>					
Net profit for the year	-	-	-	14,017	14,017
Other comprehensive income for the year	-	-	154	-	154
<b>Total comprehensive income for the year</b>	-	-	154	14,017	14,171
<b>Balance as at December 31, 2023</b>	378,000	401	-	(292,138)	86,263

Mr. Anar Hasanov  
Chief Executive Officer

April 22, 2024  
Baku, the Republic of Azerbaijan

Mr. Emil Dushdurov  
Chief Financial Officer

April 22, 2024  
Baku, the Republic of Azerbaijan

Mr. Ayaz Ismayilov  
Chief Accountant

April 22, 2024  
Baku, the Republic of Azerbaijan

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, 2023

(In thousands of Azerbaijan Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		107,834	78,368
Interest paid		(38,229)	(27,455)
Fee and commission received		8,448	6,026
Fee and commission paid		(11,040)	(7,250)
Net receipts from trading in foreign currencies		3,326	5,353
Realized losses from transactions with derivatives		(4,398)	(2,099)
Personnel expenses paid		(36,954)	(31,735)
General and administrative expenses paid		(12,756)	(12,001)
Loan collection fees paid		(855)	(1,914)
Other income received		137	178
<b>(Increase)/decrease in operating assets</b>			
Due from banks		(21,364)	(20,822)
Loans to customers, net		(150,742)	(163,730)
Assets held for sale		5,648	4,753
Other assets		(3,622)	(865)
<b>Increase/(decrease) in operating liabilities</b>			
Current accounts and deposits from customers		718,835	184,545
Deposits and balances from banks		-	(3,000)
Other liabilities		1,259	(581)
<b>Cash flows provided from operating activities</b>		<b>565,527</b>	<b>7,771</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net proceeds/(payment for) from disposal of investment securities		13,767	(13,076)
Payments for property, equipment and intangible assets		(4,146)	(5,881)
Proceeds from sale of property and equipment and intangible assets		123	21
<b>Cash flows provided from/(used in) investing activities</b>		<b>9,744</b>	<b>(18,936)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowed funds	21	22,940	23,596
Repayment of borrowed funds	21	(18,920)	(14,425)
Repayment of principal portion of lease liabilities	22	(1,301)	(1,655)
Proceeds from subordinated borrowings	21	-	25,500
<b>Cash flows provided from financing activities</b>		<b>2,719</b>	<b>33,016</b>
<b>Net increase in cash and cash equivalents</b>		<b>577,990</b>	<b>21,851</b>
Effect of changes in exchange rates on cash and cash equivalents		3,107	32,191
Effect of net change in accrued interest on cash and cash equivalents		-	(41)
Cash and cash equivalents as at the beginning of the year	12	105,069	51,068
<b>Cash and cash equivalents as at the end of the year</b>	12	<b>686,166</b>	<b>105,069</b>

Mr. Anar Hacıyev  
Chief Executive Officer

April 22, 2024  
Baku, the Republic of Azerbaijan

Mr. Emil Dushdurov  
Chief Financial Officer

April 22, 2024  
Baku, the Republic of Azerbaijan

Mr. Ayaz Ismayilov  
Chief Accountant

April 22, 2024  
Baku, the Republic of Azerbaijan

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

# “YELO BANK” OPEN JOINT-STOCK COMPANY

## NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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### 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, 2023.

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, and securities and foreign exchange transactions. 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.

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

As at December 31, 2023, the Bank had eighteen branches (December 31, 2022: sixteen). The majority of its assets and liabilities are located in the Republic of Azerbaijan.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

The Bank is owned by:

	December 31, 2023, %	December 31, 2022, %
<b>Shareholders</b>		
Ms. Marina Kulishova	98.94	98.94
Mr. Anar Hasanov	0.96	0.96
“ISR Holding” LLC	0.10	0.10
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

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

#### (b) Operating environment

##### Azerbaijan business environment

The Bank’s operations are conducted in the Republic of Azerbaijan. 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 Azerbaijan economy also has a significant exposure to the level of international energy prices. Crude oil prices increased in the first half of the year because of supply concerns however starting from the second half of the year oil prices generally decreased as concerns about a possible economic recession reduced demand. The Brent crude oil spot price averaged USD 100 per barrel in 2022. Strong oil prices supported the economic growth of the country.

The depreciation of Azerbaijani Manat in 2015-2016 years has led to significant uncertainties in business environment, therefore government took all required actions to keep the exchange rate stable over the past 7 years. As a result, continuous fluctuation in global oil prices did not affect the local currency and therefore did not increase the uncertainty in the business environment.

The economy of Azerbaijan expanded 1.1 percent year-on-year in the January-December period 2023, slowing from a 4.6% growth in the same period last year. The non-oil & gas sector increased by 3.7%, while the oil & gas sector contracted 1.7%.

From the production side, the strongest contributions came from industry (40.5%) and retail trade (10%). Additional support was seen in transportation & storage (6.2%) and construction (6.2%).

The sustainability of the cease-fire arrangement over the Karabakh region also improves the business environment as there are number of government-led projects to attract investment and develop the territories released from occupation

GDP reached AZN 123 billion (USD 72.4 billion) in 2023 with 1.1% growth compared to 2022. During the eleven months of 2023 foreign trade turnover of the Republic of Azerbaijan reached about USD 41.2 billion of which export amounted to USD 25.4 billion and import amounted to USD 15.8 billion according to the statistics of the State Customs Committee. Inflation rate decreased from 13.9% in December 2022 to 8.8% in December 2023.

By the end of December 2023 number of active plastic cards increased to a historic high of 16,925 thousand compared to 13,257 thousand in 2022.

## **“YELO BANK” OPEN JOINT-STOCK COMPANY**

### **NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)**

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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International credit rating agencies regularly evaluate the credit rating of the Republic of Azerbaijan. “Fitch” and “S&P” evaluated the rating of the Republic of Azerbaijan as “BB+”. “Moody’s Investors Service” set a “Ba1” credit rating for the country.

The future economic growth of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The Management is unable to predict, all developments in the economic environment which would have an impact on the Bank’s operations and consequently what effect, if any, they could have on the financial position of the Bank. The management is currently performing sensitivity analyses under different oil price scenarios and elaborating relevant action plans for maintaining the sustainability of the business.

## **2. BASIS OF PREPARATION**

### **(a) Statement of compliance**

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, financial instruments categorized at fair value through profit or loss (“FVPL”) and at fair value through other comprehensive income (“FVOCI”). The principal accounting policies applied in the preparation of these financial statements are set out below.

#### **Going concern**

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

### **(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, 2023, the principal rate of exchange used for translating foreign currency balances was USD 1=AZN 1,7000 and EUR 1=AZN 1,8766 (December 31, 2022: USD 1=AZN 1,7000 and EUR 1=AZN 1,8114).

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 Bank makes estimates and assumptions that affect the amounts recognized in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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#### *Measurement of ECL allowance*

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 27. 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.

#### *Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts)*

For certain loan facilities, the Bank’s exposure to credit losses may extend beyond the maximum contractual period of the facility. This exception applies to certain revolving credit facilities, which include both a loan and an undrawn commitment component and where the Bank’s contractual ability to demand repayment and cancel the undrawn component in practice does not limit its exposure to credit losses.

For such facilities, the Bank measures ECLs over the period that the Bank is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this exception requires judgement. Management applied its judgement in identifying the facilities, both retail and commercial, to which this exception applies. The Bank applied this exception to facilities with the following characteristics: (a) there is no fixed term or repayment structure, (b) the contractual ability to cancel the contract is not in practice enforced as a result of day-to-day management of the credit exposure and the contract may only be cancelled when the Bank becomes aware of an increase in credit risk at the level of an individual facility, and (c) the exposures are managed on a collective basis. Further, the Bank applied judgement in determining a period for measuring the ECL, including the starting point and the expected endpoint of the exposures.

The Bank considered historical information and experience about (a) the period over which the Bank is exposed to credit risk on similar facilities, including when the last significant modification of the facility occurred and that, therefore, determines the starting point for assessing SICR, (b) the length of time for related defaults to occur on similar financial instruments following a SICR and (c) the credit risk management actions (e.g. the reduction or removal of undrawn limits), prepayment rates and other factors that drive expected maturity. In applying these factors, the Bank segments the portfolios of revolving facilities into sub-groups and applies the factors that are most relevant based on historical data and experience as well as forward-looking information.

#### *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 27.

## **“YELO BANK” OPEN JOINT-STOCK COMPANY**

### **NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)**

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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#### ***Business model assessment***

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimizing potential losses due to credit deterioration are considered consistent with the “hold to collect” business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the “hold to collect” business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank’s control, are not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

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

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

#### ***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.

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.

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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.

#### *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.

#### *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.

#### *Deferred income tax asset recognition*

The management of the Bank provided a valuation allowance against deferred income tax assets in the amount of AZN 1,350 thousand as at December 31, 2023 (December 31, 2022: AZN 6,946 thousand). The carrying value of deferred income tax assets amounted to nil as at December 31, 2023 and 2022, respectively.

#### *Valuation of lease liabilities and right of use assets*

The application of IFRS 16 requires to make judgements of right-of-use assets and lease liabilities. In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise renewal options (or not to exercise termination options). Assessing whether a contract includes a lease also requires judgement. Estimates are required to determine the appropriate discount rate used to measure lease liabilities.

### 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.

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### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

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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.

#### **(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.



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### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

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#### *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.

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.

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### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

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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 include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBAR and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. The mandatory reserve deposit with the CBAR is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

#### (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.

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### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

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A debt instrument is measured at FVOCI only 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 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:

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### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

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- 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.

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.

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### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

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#### *(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.

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.

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### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

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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.

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.

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.

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### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

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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.

#### ***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.

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#### *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.

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.



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#### *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.

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### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

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#### **(vi) 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.

#### **(f) 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.

#### **(g) 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) Options**

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Bank purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Bank provide it with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed value either on or before the expiration of the option. The Bank is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written (sold) by the Bank provide the purchaser the opportunity to purchase from, or sell to, the Bank the underlying asset at an agreed value either on or before the expiration of the option. These instruments represent a higher market risk than purchased options.

#### **(h) 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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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#### (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

#### (i) 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.

#### (j) 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.

#### (k) 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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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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.

#### **(l) 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.

#### **(m) 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.

#### **(n) 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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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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.

#### **(o) 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.

#### **(p) 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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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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.

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.

#### **(q) Standards issued but not yet effective**

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Interpretations were in issue but not yet effective. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IASB has issued “**Lease Liability in a Sale and Leaseback**” (**Amendments to IFRS 16**) with **amendments** that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. **Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)** requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognizing in profit or loss any gain or loss relating to the partial or full termination of a lease. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted.

**Amendments to IAS 1: Classification of Liabilities as Current or Non-current** - In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity’s right to defer settlement is contingent on compliance with future covenants within twelve months.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively.

In May 2023 IASB published “**Supplier Finance Arrangements**” (**Amendment to IAS 7 and IFRS 7**) – These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity’s liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB’s response to investors’ concerns that some companies’ supplier finance arrangements are not sufficiently visible, hindering investors’ analysis. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with transitional reliefs in the first year.

On August 2023 IASB amended **IAS 21 “The Effects of Changes in Foreign Exchange Rates”** to clarify when a currency is exchangeable into another currency and how a company estimates a spot rate when a currency lacks exchangeability. An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency, with a normal administrative delay, and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with the option for early adoption.

On April 9, 2024, the IASB issued a new standard – **IFRS 18, ‘Presentation and Disclosure in Financial Statements’** – in response to investors’ concerns about the comparability and transparency of entities’ performance reporting. The new requirements introduced in IFRS 18 will help to achieve comparability of the financial performance of similar entities, especially related to how ‘operating profit or loss’ is defined. The key new concepts introduced in IFRS 18 relate to:

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

IFRS 18 will replace IAS 1; many of the other existing principles in IAS 1 are retained, with limited changes. IFRS 18 will not impact the recognition or measurement of items in the financial statements, but it might change what an entity reports as its ‘operating profit or loss’.

IFRS 18 will apply for reporting periods beginning on or after January 1, 2027 and also applies to comparative information.

**IFRS 10 “Consolidated Financial Statements” and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** – The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

Unless otherwise disclosed, the new standards are not expected to have a material effect on the financial statements of the Bank.

#### **(r) Adoption of new or revised standards and interpretations**

In the current year, the Bank has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for the year ended December 31, 2023.

**IFRS 17 “Insurance contracts”** – was issued in May 2017 and replaced IFRS 4 “Insurance contracts”. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. An entity shall apply IFRS 17 “Insurance Contracts” to insurance contracts, including reinsurance contracts, it issues; reinsurance contracts it holds; and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts. This standard is not applicable to the Bank.

**Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2** – In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

**Definition of Accounting Estimates – Amendments to IAS 8** – In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

**Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12** – In May 2021, the Board issued amendments to IAS 12, which narrowed the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations.



## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

**International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12** – In May 2023 the Board issued amendments to IAS 12, which introduce a mandatory exception in IAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes are effective immediately upon issuance. These amendments provide a mandatory exception in IAS 12, exempting entities from recognizing and disclosing deferred tax assets and liabilities associated with Pillar Two income taxes. The amendments clarify that IAS 12 applies to income taxes arising from legislation implementing the Pillar Two Model Rules by the Organization for Economic Cooperation and Development (OECD). While disclosure requirements are effective later, entities must disclose their application of the exception, separately detail current tax expenses related to Pillar Two income taxes, and provide information on exposure to Pillar Two income taxes for effective and future periods. The transitional provisions apply immediately and retrospectively, with specific disclosure requirements applicable for annual reporting periods starting on or after January 1, 2023, excluding any interim period ending on or before December 31, 2023.

Unless otherwise disclosed, the new standards did not have a material effect on the financial statements of the Bank.

#### 4. NET INTEREST INCOME

	<b>Year ended December 31, 2023</b>	<b>Year ended December 31, 2022</b>
<b>Interest income calculated using the effective interest method</b>		
Loans to customers	105,112	77,223
Cash and cash equivalents	4,700	2,228
Investment securities	717	685
Due from banks	16	2
	<b>110,545</b>	<b>80,138</b>
<b>Interest expense calculated using the effective interest method</b>		
Current accounts and deposits from customers	(38,375)	(27,969)
Borrowed funds	(2,834)	(2,774)
Lease liability	(1,734)	(1,287)
Subordinated borrowings	(934)	(835)
Deposits and balances from banks	(189)	-
	<b>(44,066)</b>	<b>(32,865)</b>
<b>Net interest income</b>	<b>66,479</b>	<b>47,273</b>

#### 5. FEE AND COMMISSION INCOME

	<b>Year ended December 31, 2023</b>	<b>Year ended December 31, 2022</b>
Plastic cards operations	5,268	3,120
Settlements	2,176	1,983
Cash withdrawals	497	566
Guarantee and letter of credit issuance	234	184
Others	273	173
<b>Total fee and commission income</b>	<b>8,448</b>	<b>6,026</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### *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 Banking		Total	
	2023	2022	2023	2022	2023	2022
<b>For the year ended December 31</b>						
Plastic cards operations	2,423	1,602	2,845	1,518	5,268	3,120
Settlements	808	852	1,368	1,131	2,176	1,983
Cash withdrawals	263	243	234	323	497	566
Guarantee and letter of credit issuance	-	-	234	184	234	184
Others	21	9	252	164	273	173
<b>Total fee and commission income</b>	<b>3,515</b>	<b>2,706</b>	<b>4,933</b>	<b>3,320</b>	<b>8,448</b>	<b>6,026</b>
Fee and commission expense	(6,844)	(5,922)	(4,196)	(1,328)	(11,040)	(7,250)
<b>Net fee and commission (loss)/income</b>	<b>(3,329)</b>	<b>(3,216)</b>	<b>737</b>	<b>1,992</b>	<b>(2,592)</b>	<b>(1,224)</b>

#### *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.

## 6. FEE AND COMMISSION EXPENSE

	Year ended December 31, 2023	Year ended December 31, 2022
Plastic cards operations	(7,017)	(4,070)
Agency fees	(2,013)	(1,641)
Cashback	(1,371)	(1,007)
Settlements	(396)	(264)
Cash withdrawals	(205)	(193)
Brokerage services	(13)	(39)
Others	(25)	(36)
<b>Total fee and commission expense</b>	<b>(11,040)</b>	<b>(7,250)</b>

## 7. NET RESULT FROM FOREIGN CURRENCY DERIVATIVES

The Bank entered into derivative financial instruments as at December 31, 2023 and 2022. 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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

	December 31, 2023			December 31, 2022		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
<b>Foreign exchange contracts</b>						
Forwards and swaps - foreign	-	-	-	11,381	350	(924)
Forwards and swaps - domestic	43,603	-	(2,803)	73,172	-	(3,771)
<b>Total derivative assets/(liabilities)</b>		<b>-</b>	<b>(2,803)</b>		<b>350</b>	<b>(4,695)</b>

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.

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 3,257 thousand and AZN 3,910 thousand as at December 31, 2023 and 2022 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 table provides a reconciliation between loss allowance roll-forward and the expected credit losses on debt financial assets in the statement of profit or loss and other comprehensive income per class of financial instrument as at 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)
<b>Total recovery/(charge)</b>	<b>10,144</b>	<b>(127)</b>	<b>97</b>	<b>10,114</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

The following table provides a reconciliation between loss allowance roll-forward and the expected credit losses on debt financial assets in the statement of profit or loss and other comprehensive income per class of financial instrument as at December 31, 2022:

	<b>Loans to customers at amortized cost</b>	<b>Other financial assets</b>	<b>Investment securities</b>	<b>Total</b>
Net remeasurement of loss allowance	20,589	66	(66)	20,589
New financial assets originated or purchased	(8,710)	-	-	(8,710)
<b>Total recovery/(charge)</b>	<b>11,879</b>	<b>66</b>	<b>(66)</b>	<b>11,879</b>

#### 9. PERSONNEL EXPENSES

	<b>Year ended December 31, 2023</b>	<b>Year ended December 31, 2022</b>
Employee compensation	(31,469)	(27,973)
Contributions to the State Social Protection Fund	(5,500)	(4,884)
<b>Total personnel expenses</b>	<b>(36,969)</b>	<b>(32,857)</b>

#### 10. GENERAL AND ADMINISTRATIVE EXPENSES

	<b>Year ended December 31, 2023</b>	<b>Year ended December 31, 2022</b>
Depreciation and amortization	(7,197)	(6,776)
Accrual to the Deposit Insurance Fund	(3,292)	(2,494)
Professional services	(2,791)	(2,433)
Computer software cost	(1,782)	(1,686)
Advertising and marketing expenses	(1,014)	(1,081)
Office supplies and printing expenses	(938)	(926)
Security expenses	(864)	(704)
Communication expenses	(791)	(727)
Representation expenses	(599)	(374)
Travel expenses	(508)	(362)
Repair and maintenance expenses	(466)	(459)
Taxes other than on income	(456)	(493)
Office utilities and cleaning expenses	(314)	(334)
Vehicle running cost	(218)	(279)
Loss on disposal of intangible assets	(214)	-
Rent expenses, low value or short-term lease expenses	(136)	(115)
Legal and court expenses	(125)	(171)
Charity and sponsorship expenses	(103)	(45)
Membership fee	(27)	(26)
Insurance expenses	(24)	(38)
Others	(344)	(187)
<b>Total other general administrative expenses</b>	<b>(22,203)</b>	<b>(19,710)</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### 11. INCOME TAX EXPENSE

	<u>2023</u>	<u>2022</u>
Current year income tax expense	-	-
Movement in deferred income tax assets and liabilities due to origination and reversal of temporary differences	-	-
<b>Total income tax expense</b>	<u>-</u>	<u>-</u>

In 2023, the applicable tax rate for current and deferred tax was 20% (December 31, 2022: 20%).

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

	<u>2023</u>	<u>%</u>	<u>2022</u>	<u>%</u>
Profit before income tax	14,017		5,624	
Income tax at the applicable tax rate	(2,803)	20	(1,125)	20
Non-deductible costs	(329)		(1,194)	
Expiration of unused tax loss	(2,464)		(39,698)	
Change in unrecognized deferred income tax assets	5,596		42,017	
<b>Total income tax expense</b>	<u>-</u>		<u>-</u>	

#### 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, 2023 and 2022. The deferred tax assets are not recognized in these financial statements. Future tax benefits will only be realized if profits will be available against which unused tax losses can be utilized and there are no changes to the law and regulations that adversely affect the Bank’s ability to claim deductions in future periods. These future tax benefits are not recognized due to uncertainties concerning their realization within the eligible time framework.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

Movements in temporary differences during the years ended December 31, 2023 and 2022 are presented as follows.

2023	Balance at January 1, 2023	Recognized in profit or loss	Recognized in OCI	Balance at December 31, 2023
Tax loss carry-forwards	7,492	(6,914)	-	578
Right-of-use assets	1,715	142	-	1,857
Other liabilities	892	254	-	1,146
Property, equipment and intangible assets	277	78	-	355
Other assets	171	16	-	187
Provisions	129	(3)	-	126
Investment securities	50	(19)	(31)	-
<b>Total deferred income tax assets</b>	<b>10,726</b>	<b>(6,446)</b>	<b>(31)</b>	<b>4,249</b>
Loans to customers	(1,759)	986	-	(773)
Lease liability	(1,354)	10	-	(1,344)
Assets held for sale	(557)	(134)	-	(691)
Borrowed funds	(69)	47	-	(22)
Due from banks	(24)	(28)	-	(52)
Deposits and balances from banks	(15)	-	-	(15)
Cash and cash equivalents	(2)	-	-	(2)
<b>Total deferred income tax liabilities</b>	<b>(3,780)</b>	<b>881</b>	<b>-</b>	<b>(2,899)</b>
Deferred income tax asset before valuation allowance	6,946	(5,565)	(31)	1,350
Deferred income tax asset not recognized	(6,946)	5,565	31	(1,350)
<b>Net deferred income tax asset</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

2022	Balance at January 1, 2022	Recognized in profit or loss	Recognized in OCI	Balance at December 31, 2022
Tax loss carry-forwards	49,424	(41,932)	-	7,492
Right-of-use assets	1,308	407	-	1,715
Other liabilities	807	85	-	892
Property, equipment and intangible assets	452	(175)	-	277
Other assets	194	(23)	-	171
Provisions	124	5	-	129
Investment securities	6	13	31	50
<b>Total deferred income tax assets</b>	<b>52,315</b>	<b>(41,620)</b>	<b>31</b>	<b>10,726</b>
Loans to customers	(2,050)	291	-	(1,759)
Lease liability	(1,017)	(337)	-	(1,354)
Assets held for sale	(167)	(390)	-	(557)
Other borrowed funds	(139)	70	-	(69)
Due from banks	(8)	(16)	-	(24)
Deposits and balances from banks	-	(15)	-	(15)
Cash and cash equivalents	(2)	-	-	(2)
<b>Total deferred income tax liabilities</b>	<b>(3,383)</b>	<b>(397)</b>	<b>-</b>	<b>(3,780)</b>
Deferred income tax asset before valuation allowance	48,932	(42,017)	31	6,946
Deferred income tax asset not recognized	(48,932)	42,017	(31)	(6,946)
<b>Net deferred income tax asset</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 12. CASH AND CASH EQUIVALENTS

	December 31, 2023	December 31, 2022
Cash on hand	24,182	18,879
Nostro accounts and overnight placements with the CBAR	55,643	43,634
Nostro accounts and overnight placements with other banks and financial institutions	575,054	19,425
<b>Cash equivalents</b>		
CBAR notes less than 90 days	1,636	16,026
Short-term deposits with other banks	29,651	7,105
<b>Total cash and cash equivalents</b>	<b>686,166</b>	<b>105,069</b>

As at December 31, 2023, besides the CBAR the Bank had six banks where the balance exceeded 10% of the Bank's equity (December 31, 2022: one). The gross value of these balances as at December 31, 2023 was AZN 595,553 thousand (December 31, 2022: AZN 11,929 thousand).

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### Loss allowance

As at December 31, 2023 and 2022, all balances included in cash and cash equivalents are classified as Stage 1 and no loss allowance is recognized.

### 13. DUE FROM BANKS

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
<b>Mandatory reserve with the CBAR</b>	<b>35,985</b>	<b>23,141</b>
<b>Loans and deposits</b>		
- rated from AA- to AA+	170	-
- rated from A- to A+	3,759	-
- rated from BB- to BB+	5,702	595
<b>Total loans and deposits</b>	<b>9,631</b>	<b>595</b>
Less: Allowance for expected credit loss	-	-
<b>Total due from banks</b>	<b>45,616</b>	<b>23,736</b>

#### 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 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, 2023 and 2022 the Bank had no due from banks whose balance exceeded 10% of equity.

As at December 31, 2023 accrued interest income included in due from banks amounted to AZN 13 thousand (December 31, 2022: nil).

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

	<b>Stage 1</b>	<b>Total</b>
<b>Gross carrying value as at January 1, 2023</b>	<b>23,736</b>	<b>23,736</b>
Net change in carrying value	<u>21,880</u>	<u>21,880</u>
<b>As at December 31, 2023</b>	<b>45,616</b>	<b>45,616</b>



## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

An analysis of changes in gross carrying value on amounts due from banks during the year ended December 31, 2022 is as follows:

	Stage 1	Total
<b>Gross carrying value as at January 1, 2022</b>	<b>2,624</b>	<b>2,624</b>
Net change in carrying value	<u>21,112</u>	<u>21,112</u>
<b>As at December 31, 2022</b>	<b><u>23,736</u></b>	<b><u>23,736</u></b>

#### Loss allowance

As at December 31, 2023 and 2022, all balances included in due from banks are classified as Stage 1 and no loss allowance is recognized.

#### 14. LOANS TO CUSTOMERS

	December 31, 2023	% of total gross loans	December 31, 2022	% of total gross loans
Corporate loans	<u>136,191</u>	17%	<u>144,738</u>	21%
<b>Total loans to corporate customers</b>	<b><u>136,191</u></b>		<b><u>144,738</u></b>	
Entrepreneur loans	376,616	47%	302,455	44%
Consumer loans	209,988	27%	157,395	23%
Mortgage loans	72,182	9%	72,123	10%
Auto loans	-	-	14,574	2%
<b>Total loans to individuals</b>	<b><u>658,786</u></b>		<b><u>546,547</u></b>	
<b>Gross loans to customers</b>	<b><u>794,977</u></b>		<b><u>691,285</u></b>	
Less: Allowance for expected credit loss	<u>(39,084)</u>	5%	<u>(95,325)</u>	14%
<b>Net loans to customers</b>	<b><u>755,893</u></b>		<b><u>595,960</u></b>	

As at December 31, 2023, accrued interest income included in loans to customers amounted to AZN 18,300 thousand (December 31, 2022: AZN 51,690 thousand).

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### (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, 2023.

	2023			
	Stage1	Stage2	Stage3	Total
<b>Allowance for ECL of loans to customers</b>				
<b>Balance at January 1</b>	<b>9,517</b>	<b>689</b>	<b>85,119</b>	<b>95,325</b>
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
<b>Balance at December 31</b>	<b>11,127</b>	<b>1,144</b>	<b>26,813</b>	<b>39,084</b>

During the year ended December 31, 2023 the Bank recovered loans in the amount of AZN 3,296 thousand from the POCI category. These loans were measured at zero value as at December 31, 2022.

	2023			
	Stage 1	Stage 2	Stage 3	Total
<b>Allowance for ECL of loans to customers– corporate loans</b>				
<b>Balance at January 1</b>	<b>1,702</b>	<b>125</b>	<b>32,416</b>	<b>34,243</b>
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
<b>Balance at December 31</b>	<b>1,599</b>	<b>384</b>	<b>17,026</b>	<b>19,009</b>

	2023			
	Stage 1	Stage 2	Stage 3	Total
<b>Allowance for ECL of loans to customers– loans to individuals</b>				
<b>Balance at January 1</b>	<b>7,815</b>	<b>564</b>	<b>52,703</b>	<b>61,082</b>
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
<b>Balance at December 31</b>	<b>9,528</b>	<b>760</b>	<b>9,787</b>	<b>20,075</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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, 2022.

	2022			
	Stage 1	Stage 2	Stage 3	Total
<b>Allowance for ECL of loans to customers</b>				
<b>Balance at January 1</b>	<b>7,903</b>	<b>1,043</b>	<b>86,273</b>	<b>95,219</b>
Transfer to Stage 1	1,085	(337)	(748)	-
Transfer to Stage 2	(89)	619	(530)	-
Transfer to Stage 3	(344)	(240)	584	-
Net remeasurement of loss allowance	(6,920)	(690)	(10,891)	(18,501)
New financial assets originated or purchased	7,882	294	534	8,710
Write-offs	-	-	(4,177)	(4,177)
Recoveries of amounts previously written off	-	-	8,366	8,366
Unwinding of discount on present value of ECLs	-	-	5,708	5,708
<b>Balance at December 31</b>	<b>9,517</b>	<b>689</b>	<b>85,119</b>	<b>95,325</b>

During the year ended December 31, 2022 the Bank recovered loans in the amount of AZN 2,088 thousand from the POCI category. These loans were measured at zero value as at December 31, 2021.

	2022			
	Stage 1	Stage 2	Stage 3	Total
<b>Allowance for ECL of loans to customers – corporate loans</b>				
<b>Balance at January 1</b>	<b>1,377</b>	<b>210</b>	<b>35,558</b>	<b>37,145</b>
Transfer to Stage 1	144	(144)	-	-
Transfer to Stage 2	(18)	312	(294)	-
Transfer to Stage 3	(258)	-	258	-
Net remeasurement of loss allowance	(862)	(261)	(7,146)	(8,269)
New financial assets originated or purchased	1,319	8	155	1,482
Write-offs	-	-	(1,931)	(1,931)
Recoveries of amounts previously written off	-	-	3,911	3,911
Unwinding of discount on present value of ECLs	-	-	1,905	1,905
<b>Balance at December 31</b>	<b>1,702</b>	<b>125</b>	<b>32,416</b>	<b>34,243</b>

	2022			
	Stage 1	Stage 2	Stage 3	Total
<b>Allowance for ECL of loans to customers – loans to individuals</b>				
<b>Balance at January 1</b>	<b>6,526</b>	<b>833</b>	<b>50,715</b>	<b>58,074</b>
Transfer to Stage 1	941	(193)	(748)	-
Transfer to Stage 2	(71)	307	(236)	-
Transfer to Stage 3	(86)	(240)	326	-
Net remeasurement of loss allowance	(6,058)	(429)	(3,745)	(10,232)
New financial assets originated or purchased	6,563	286	379	7,228
Write-offs	-	-	(2,246)	(2,246)
Recoveries of amounts previously written off	-	-	4,455	4,455
Unwinding of discount on present value of ECLs	-	-	3,803	3,803
<b>Balance at December 31</b>	<b>7,815</b>	<b>564</b>	<b>52,703</b>	<b>61,082</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### (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 539,742 thousand (December 31, 2022: AZN 426,041 thousand) with a corresponding increase in loss allowance by AZN 10,448 thousand (as at December 31, 2022: AZN 8,710 thousand);
- the write-off of loans with a total gross carrying amount of AZN 60,501 thousand resulted in the reduction of Stage 3 loss allowance by the same amount (as at December 31, 2022: AZN 4,177 thousand).

The following table sets out information about the credit quality of loans to customers measured at amortized cost 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
<i>Loans to customers at amortized cost – corporate loans</i>				
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
	<b>96,501</b>	<b>7,488</b>	<b>32,202</b>	<b>136,191</b>
<b>Loss allowance</b>	<b>(1,599)</b>	<b>(384)</b>	<b>(17,026)</b>	<b>(19,009)</b>
<b>Carrying amount</b>	<b>94,902</b>	<b>7,104</b>	<b>15,176</b>	<b>117,182</b>

	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
<i>Loans to customers at amortized cost – entrepreneur loans</i>				
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
	<b>365,573</b>	<b>3,369</b>	<b>7,674</b>	<b>376,616</b>
<b>Loss allowance</b>	<b>(5,724)</b>	<b>(364)</b>	<b>(4,587)</b>	<b>(10,675)</b>
<b>Carrying amount</b>	<b>359,849</b>	<b>3,005</b>	<b>3,087</b>	<b>365,941</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
<i>Loans to customers at amortized cost – consumer loans</i>				
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
	<b>201,394</b>	<b>3,934</b>	<b>4,660</b>	<b>209,988</b>
<b>Loss allowance</b>	<b>(3,573)</b>	<b>(389)</b>	<b>(2,710)</b>	<b>(6,672)</b>
<b>Carrying amount</b>	<b>197,821</b>	<b>3,545</b>	<b>1,950</b>	<b>203,316</b>

	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
<i>Loans to customers at amortized cost – mortgage loans</i>				
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
	<b>68,223</b>	<b>455</b>	<b>3,504</b>	<b>72,182</b>
<b>Loss allowance</b>	<b>(231)</b>	<b>(7)</b>	<b>(2,490)</b>	<b>(2,728)</b>
<b>Carrying amount</b>	<b>67,992</b>	<b>448</b>	<b>1,014</b>	<b>69,454</b>

The following table provides information on the credit quality of loans to customers as at December 31, 2022. Unless specially indicated, the amounts in the table represent gross carrying amounts.

	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
<i>Loans to customers at amortized cost – corporate loans</i>				
Not overdue	88,112	1,856	19,529	109,497
Overdue less than 30 days	81	-	-	81
Overdue 30-89 days	-	647	35	682
Overdue 90-179 days	-	-	3,520	3,520
Overdue 180-360 days	-	-	1,106	1,106
Overdue more than 360 days	-	-	29,852	29,852
	<b>88,193</b>	<b>2,503</b>	<b>54,042</b>	<b>144,738</b>
<b>Loss allowance</b>	<b>(1,702)</b>	<b>(125)</b>	<b>(32,416)</b>	<b>(34,243)</b>
<b>Carrying amount</b>	<b>86,491</b>	<b>2,378</b>	<b>21,626</b>	<b>110,495</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
<i>Loans to customers at amortized cost – entrepreneur loans</i>				
Not overdue	276,487	3,484	187	280,158
Overdue less than 30 days	1,583	74	45	1,702
Overdue 30-89 days	-	1,073	41	1,114
Overdue 90-179 days	-	-	1,611	1,611
Overdue 180-360 days	-	-	1,235	1,235
Overdue more than 360 days	-	-	16,635	16,635
	<b>278,070</b>	<b>4,631</b>	<b>19,754</b>	<b>302,455</b>
<b>Loss allowance</b>	<b>(4,429)</b>	<b>(239)</b>	<b>(15,742)</b>	<b>(20,410)</b>
<b>Carrying amount</b>	<b>273,641</b>	<b>4,392</b>	<b>4,012</b>	<b>282,045</b>

	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
<i>Loans to customers at amortized cost – consumer loans</i>				
Not overdue	133,092	2,157	311	135,560
Overdue less than 30 days	1,802	90	33	1,925
Overdue 30-89 days	-	780	84	864
Overdue 90-179 days	-	-	771	771
Overdue 180-360 days	-	-	1,069	1,069
Overdue more than 360 days	-	-	17,206	17,206
	<b>134,894</b>	<b>3,027</b>	<b>19,474</b>	<b>157,395</b>
<b>Loss allowance</b>	<b>(3,168)</b>	<b>(305)</b>	<b>(17,160)</b>	<b>(20,633)</b>
<b>Carrying amount</b>	<b>131,726</b>	<b>2,722</b>	<b>2,314</b>	<b>136,762</b>

	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
<i>Loans to customers at amortized cost – mortgage loans</i>				
Not overdue	62,211	316	1,195	63,722
Overdue less than 30 days	2,238	-	28	2,266
Overdue 30-89 days	-	705	743	1,448
Overdue 90-179 days	-	-	179	179
Overdue 180-360 days	-	-	98	98
Overdue more than 360 days	-	-	4,410	4,410
	<b>64,449</b>	<b>1,021</b>	<b>6,653</b>	<b>72,123</b>
<b>Loss allowance</b>	<b>(218)</b>	<b>(20)</b>	<b>(5,249)</b>	<b>(5,487)</b>
<b>Carrying amount</b>	<b>64,231</b>	<b>1,001</b>	<b>1,404</b>	<b>66,636</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
<i>Loans to customers at amortized cost – auto loans</i>				
Not overdue	-	-	-	-
Overdue less than 30 days	-	-	-	-
Overdue 30-89 days	-	-	-	-
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	14,574	14,574
	-	-	14,574	14,574
<b>Loss allowance</b>	-	-	(14,552)	(14,552)
<b>Carrying amount</b>	-	-	22	22

#### (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, 2023. The fair value of collaterals is updated as at the reporting date.

	Gross carrying amount	Loss allowance	Carrying amount	Fair value of collateral held					Total
				Cash and deposits	Motor vehicles	Real estate	Precious metals		
<b>Loans to corporate customers</b>									
Corporate loans	32,202	(17,026)	15,176	-	39	6,945	-	-	6,984
<b>Loans to individuals</b>									
Entrepreneur loans	7,674	(4,587)	3,087	-	248	3,938	-	-	4,186
Consumer loans	4,660	(2,710)	1,950	103	16	1,328	5	-	1,452
Mortgage loans	3,504	(2,490)	1,014	-	-	2,761	-	-	2,761
<b>Total credit-impaired loans to customers</b>	<b>48,040</b>	<b>(26,813)</b>	<b>21,227</b>	<b>103</b>	<b>303</b>	<b>14,972</b>	<b>5</b>	<b>-</b>	<b>15,383</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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, 2022. The fair value of collaterals is updated as at the reporting date.

	Gross carrying amount	Loss allowance	Carrying amount	Fair value of collateral held				Total
				Cash and deposits	Motor vehicles	Real estate	Precious metals	
<b>Loans to corporate customers</b>								
Corporate loans	54,042	(32,416)	21,626	-	10	7,677	-	7,687
<b>Loans to individuals</b>								
Entrepreneur loans	19,754	(15,742)	4,012	-	118	9,903	2	10,023
Consumer loans	19,474	(17,160)	2,314	172	16	4,184	8	4,380
Mortgage loans	6,653	(5,249)	1,404	-	-	3,893	-	3,893
Auto loans	14,574	(14,552)	22	-	6,082	-	-	6,082
<b>Total credit-impaired loans to customers</b>	<b>114,497</b>	<b>(85,119)</b>	<b>29,378</b>	<b>172</b>	<b>6,226</b>	<b>25,657</b>	<b>10</b>	<b>32,065</b>

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

	Gross carrying amount	Loss allowance	Carrying amount	Fair value of collateral held				Total
				Cash and deposits	Motor vehicles	Real estate	Precious metals	
<b>Loans to corporate customers</b>								
Corporate loans	136,191	(19,009)	117,182	1,376	1,422	134,445	12,974	150,217
<b>Loans to individuals</b>								
Entrepreneur loans	376,616	(10,675)	365,941	373	14,485	189,327	4	204,189
Consumer loans	209,988	(6,672)	203,316	16,948	26	7,639	9	24,622
Mortgage loans	72,182	(2,728)	69,454	-	-	81,650	-	81,650
<b>Total loans to customers</b>	<b>794,977</b>	<b>(39,084)</b>	<b>755,893</b>	<b>18,697</b>	<b>15,933</b>	<b>413,061</b>	<b>12,987</b>	<b>460,678</b>

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



## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

The following table provides information on collateral securing loans to customers, net of impairment, by types of collateral as at December 31, 2022:

	Gross carrying amount	Loss allowance	Carrying amount	Fair value of collateral held				Total
				Cash and deposits	Motor vehicles	Real estate	Precious metals	
<b>Loans to corporate customers</b>								
Corporate loans	144,738	(34,243)	110,495	2,275	922	86,600	12,974	102,771
<b>Loans to individuals</b>								
Entrepreneur loans	302,455	(20,410)	282,045	499	9,153	153,842	5	163,499
Consumer loans	157,395	(20,633)	136,762	10,062	52	12,060	12	22,186
Mortgage loans	72,123	(5,487)	66,636	-	-	78,508	-	78,508
Auto loans	14,574	(14,552)	22	-	6,082	-	-	6,082
<b>Total loans to customers</b>	<b>691,285</b>	<b>(95,325)</b>	<b>595,960</b>	<b>12,836</b>	<b>16,209</b>	<b>331,010</b>	<b>12,991</b>	<b>373,046</b>

As at December 31, 2022 the Bank held loans to customers in the amount of AZN 12,836 thousand for which no loss allowance was recognized as they are collateralised fully by cash and deposits.

#### *Repossessed collateral*

During the year ended December 31, 2023, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AZN 3,907 thousand (December 31, 2022: AZN 3,990 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.

#### (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, 2023	%	December 31, 2022	%
Corporate loans				
- trade and services	81,716	10.3	88,091	12.7
- manufacturing	24,173	3.0	19,357	2.8
- agriculture	10,629	1.3	14,386	2.1
- construction	8,567	1.1	10,242	1.5
- financial services	6,053	0.8	9,452	1.4
- others	5,053	0.6	3,210	0.4
<b>Total corporate loans</b>	<b>136,191</b>	<b>17.1</b>	<b>144,738</b>	<b>20.9</b>
Loans to individuals				
- entrepreneurs	376,616	47.4	302,455	43.8
- consumer loans	208,340	26.2	156,825	22.7
- mortgage loans	72,182	9.1	72,123	10.4
- auto loans	-	-	14,574	2.1
- credit cards	1,648	0.2	570	0.1
<b>Total loans to individuals</b>	<b>658,786</b>	<b>82.9</b>	<b>546,547</b>	<b>79.1</b>
<b>Total loans to customers</b>	<b>794,977</b>	<b>100.0</b>	<b>691,285</b>	<b>100.0</b>
Allowance for ECL	(39,084)		(95,325)	
<b>Net loans to customers</b>	<b>755,893</b>		<b>595,960</b>	

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### (f) Significant credit exposures

As at December 31, 2023, the Bank had forty borrowers (December 31, 2022: thirty-three borrowers) with gross loan balances exceeding AZN 1,000 thousand. The gross value of these loans as at December 31, 2023 was AZN 100,446 thousand or 13% of the total loans to customers (December 31, 2022: AZN 82,294 thousand or 12%).

#### (g) Loan modification

During the year ended December 31, 2023 and 2022 the Bank restructured loans in the amount of AZN 3,124 thousand and AZN 3,707 thousand, respectively.

#### (h) Loan maturities

The maturity of the loan portfolio is presented in Note 27, 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 1,186 thousand and AZN 1,914 thousand represent fees paid to collector agencies for collection of problematic loans during the year ended December 31, 2023 and 2022, respectively.

## 15. INVESTMENT SECURITIES

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Investment securities measured at amortized cost	6,985	14,143
Investment securities at FVOCI	-	6,626
<b>Total investment securities</b>	<b>6,985</b>	<b>20,769</b>
Less: Allowance for expected credit loss	-	(32)
<b>Total investment securities</b>	<b>6,985</b>	<b>20,737</b>
	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>Corporate bonds</b>		
Bonds of the financial institutions	5,285	10,090
US Treasury Bills	1,700	5,132
Bonds of the State Oil Company of the Republic of Azerbaijan	-	3,462
Bonds of the non-financial institution	-	2,085
<b>Total investment securities</b>	<b>6,985</b>	<b>20,769</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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. (As at December 31, 2022, the debt securities measured at amortized cost included US Treasury Bills, carrying an annual interest rate of 3.50% with maturity in March 2023, corporate bonds of State Oil Company of the Republic of Azerbaijan carrying an annual interest rate of 4% with maturity in March 2023, and corporate bonds of foreign and local companies “Azergold” OJSC, “TBC bank” JSC, “Pasha Yatırım Bankası” A.Ş., “Petkim Petrokimya Holding” A.Ş., carrying an annual interest rate of 3.60%-3.70%, 5.75%, 5.75%, 5.00%, with maturity in September 2023, June 2024, June 2024, January 2023, respectively. Debt securities at FVOCI included corporate bonds of “International Bank of Azerbaijan” OJSC, NBCO “Finca Azerbaijan” LLC, NBCO “EmbaFinans” CJSC, NBCO “TBC Kredit” LLC, with an annual interest rate of 6.00%, 9.00%, 7.50%, 8.00%, and with maturities in June 2024, December 2023, August 2024, September 2023).

Fair value gain recognized for debt securities at FVOCI was AZN 220 thousand for the year ended December 31, 2023 (2022: loss in the amount of AZN 220 thousand).

Corporate bonds measured at amortized cost are quoted in active market and their fair value approximated carrying value as at December 31, 2023 and 2022.

As at December 31, 2023, accrued interest income included in investment securities amounted to AZN 27 thousand (December 31, 2022: AZN 265 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
<b>ECL allowance value as at January 1, 2023</b>	<b>(32)</b>	<b>(32)</b>
Net change in ECL value	98	98
ECL on investment securities at FVOCI	(66)	(66)
<b>As at December 31, 2023</b>	<b>-</b>	<b>-</b>

An analysis of changes in ECL allowance on investment securities during the year ended December 31, 2022 is as follows:

	Stage 1	Total
<b>ECL allowance value as at January 1, 2022</b>	<b>(32)</b>	<b>(32)</b>
Net change in ECL value	(66)	(66)
ECL on investment securities at FVOCI	66	66
<b>As at December 31, 2022</b>	<b>(32)</b>	<b>(32)</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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

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

An analysis of changes in gross carrying value on investment securities during the year ended December 31, 2022 is as follows:

	Stage 1	Total
<b>Gross carrying value as at January 1, 2022</b>	<b>7,735</b>	<b>7,735</b>
Net change in carrying value	<u>13,034</u>	<u>13,034</u>
<b>As at December 31, 2022</b>	<b><u>20,769</u></b>	<b><u>20,769</u></b>

#### 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, 2023 and 2022. Explanation of the term “Stage 1” included in Note 3.

	December 31, 2023		December 31, 2022	
	Stage 1	Total	Stage 1	Total
<i>Debt investment securities at amortized cost and FVOCI</i>				
Rated from A- to AAA	5,280	5,280	5,132	5,132
Rated from BB- to BB+	1,705	1,705	7,212	7,212
Rated from B to B+	-	-	3,435	3,435
Not rated	-	-	4,958	4,958
<b>Carrying amount</b>	<b><u>6,985</u></b>	<b><u>6,985</u></b>	<b><u>20,737</u></b>	<b><u>20,737</u></b>

**“YELO BANK” OPEN JOINT-STOCK COMPANY**

**NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)**

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

**16. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS**

	<b>Buildings</b>	<b>Furniture and fixtures</b>	<b>Computers and communication equipment</b>	<b>Vehicles</b>	<b>Other fixed assets</b>	<b>Leasehold improvements</b>	<b>Intangible assets</b>	<b>Total</b>
<b>Cost amount</b>								
Balance at January 1, 2023	<b>3,169</b>	<b>4,977</b>	<b>11,164</b>	<b>1,589</b>	<b>204</b>	<b>14,246</b>	<b>14,126</b>	<b>49,475</b>
Additions	-	207	1,507	402	13	170	3,027	5,326
Disposals	-	(9)	(4)	(247)	-	-	(1,642)	(1,902)
<b>Balance at December 31, 2023</b>	<b>3,169</b>	<b>5,175</b>	<b>12,667</b>	<b>1,744</b>	<b>217</b>	<b>14,416</b>	<b>15,511</b>	<b>52,899</b>
<b>Depreciation and amortization</b>								
Balance at January 1, 2023	<b>(1,645)</b>	<b>(1,883)</b>	<b>(7,706)</b>	<b>(622)</b>	<b>(74)</b>	<b>(1,860)</b>	<b>(5,902)</b>	<b>(19,692)</b>
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
<b>Balance at December 31, 2023</b>	<b>(1,803)</b>	<b>(2,325)</b>	<b>(9,524)</b>	<b>(595)</b>	<b>(115)</b>	<b>(2,859)</b>	<b>(5,976)</b>	<b>(23,197)</b>
<b>Carrying amount</b>								
<b>At December 31, 2023</b>	<b>1,366</b>	<b>2,850</b>	<b>3,143</b>	<b>1,149</b>	<b>102</b>	<b>11,557</b>	<b>9,535</b>	<b>29,702</b>
<b>Cost amount</b>								
Balance at January 1, 2022	<b>3,169</b>	<b>4,850</b>	<b>10,129</b>	<b>1,227</b>	<b>204</b>	<b>13,790</b>	<b>11,623</b>	<b>44,992</b>
Additions	-	151	1,079	378	-	484	2,503	4,595
Disposals	-	(24)	(44)	(16)	-	(28)	-	(112)
<b>Balance at December 31, 2022</b>	<b>3,169</b>	<b>4,977</b>	<b>11,164</b>	<b>1,589</b>	<b>204</b>	<b>14,246</b>	<b>14,126</b>	<b>49,475</b>

**“YELO BANK” OPEN JOINT-STOCK COMPANY**

**NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)**

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

	Buildings	Furniture and fixtures	Computers and communication equipment	Vehicles	Other fixed assets	Leasehold improvements	Intangible assets	Total
<b>Depreciation and amortization</b>								
Balance at January 1, 2022	(1,487)	(1,449)	(6,018)	(529)	(36)	(897)	(4,630)	(15,046)
Depreciation and amortization for the year	(158)	(455)	(1,723)	(109)	(38)	(985)	(1,272)	(4,740)
Disposals	-	21	35	16	-	22	-	94
<b>Balance at December 31, 2022</b>	<b>(1,645)</b>	<b>(1,883)</b>	<b>(7,706)</b>	<b>(622)</b>	<b>(74)</b>	<b>(1,860)</b>	<b>(5,902)</b>	<b>(19,692)</b>
<b>Carrying amount</b>								
<b>At December 31, 2022</b>	<b>1,524</b>	<b>3,094</b>	<b>3,458</b>	<b>967</b>	<b>130</b>	<b>12,386</b>	<b>8,224</b>	<b>29,783</b>

As at December 31, 2023 and 2022, 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 6,804 thousand and AZN 4,816 thousand, respectively.

As at December 31, 2023 and 2022, included in property, equipment and intangible assets insured in the amount of AZN 11,678 thousand and AZN 14,816 thousand, respectively.

As at December 31, 2023 and 2022, property, equipment and intangible assets were not pledged as collateral for borrowings.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### 17. RIGHT-OF-USE ASSETS

	<b>Office buildings and infrastructure</b>	<b>Total</b>
<b>Cost amount</b>		
<b>Balance at December 31, 2022</b>	<b>16,239</b>	<b>16,239</b>
Additions	1,542	1,542
<b>Balance at December 31, 2023</b>	<b>17,781</b>	<b>17,781</b>
<b>Depreciation</b>		
<b>Balance at December 31, 2022</b>	<b>(5,812)</b>	<b>(5,812)</b>
Depreciation for the year	(2,064)	(2,064)
<b>Balance at December 31, 2023</b>	<b>(7,876)</b>	<b>(7,876)</b>
<b>Carrying amount</b>		
<b>At December 31, 2023</b>	<b>9,905</b>	<b>9,905</b>
<b>Balance at January 1, 2022</b>	<b>14,550</b>	<b>14,550</b>
Additions	1,689	1,689
<b>Balance at December 31, 2022</b>	<b>16,239</b>	<b>16,239</b>
<b>Depreciation</b>		
<b>Balance at January 1, 2022</b>	<b>(3,776)</b>	<b>(3,776)</b>
Depreciation for the year	(2,036)	(2,036)
<b>Balance at December 31, 2022</b>	<b>(5,812)</b>	<b>(5,812)</b>
<b>Carrying amount</b>		
<b>At December 31, 2022</b>	<b>10,427</b>	<b>10,427</b>

#### 18. ASSETS HELD FOR SALE

During the years ended December 31, 2023 and 2022 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, 2023 and 2022 the carrying amount of such assets amounted to AZN 6,925 thousand and AZN 8,262 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, 2023, the Bank recognized fair value loss in the amount of AZN 217 thousand (December 31, 2022: fair value gain in the amount of AZN 150 thousand).

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

Assets held for sale are comprised of the following assets:

	December 31, 2023	December 31, 2022
Real estate	13,572	14,818
Other assets	9	3
Cumulative change in fair value less costs to sell	(6,656)	(6,559)
<b>Balance at the end of the year</b>	<b>6,925</b>	<b>8,262</b>

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

	2023	2022
<b>Balance at the beginning of the year</b>	<b>6,559</b>	<b>6,818</b>
Change in fair value of assets held for sale	217	(150)
Write-offs	(120)	(109)
<b>Balance at the end of the year</b>	<b>6,656</b>	<b>6,559</b>

## 19. OTHER ASSETS

	December 31, 2023	December 31, 2022
Settlements on monetary transfers	6,947	4,405
Amounts in course of settlement	1,834	1,592
Receivables from sale of repossessed assets	1,359	682
Derivative financial instruments(see Note 7)	-	350
Others	865	716
Less: loss allowance for other financial assets	(246)	(246)
<b>Total other financial assets</b>	<b>10,759</b>	<b>7,499</b>
Prepayments for services	750	797
Prepayments for purchase of intangible assets	321	653
Prepayments for purchase of fixed assets	-	848
Others	137	184
<b>Total other non-financial assets</b>	<b>1,208</b>	<b>2,482</b>
<b>Total other assets</b>	<b>11,967</b>	<b>9,981</b>

### 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.

	2023		2022	
	Stage 3	Total	Stage 3	Total
<b>Other assets</b>				
<b>Balance at January 1</b>	(246)	(246)	(312)	(312)
Net remeasurement of loss allowance	(127)	(127)	66	66
Write off	127	127	-	-
<b>Balance at December 31</b>	<b>(246)</b>	<b>(246)</b>	<b>(246)</b>	<b>(246)</b>



## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### 20. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	December 31, 2023	December 31, 2022
<b>Current accounts and demand deposits</b>		
- Corporate	584,814	105,635
- Retail	107,074	92,842
<b>Term deposits</b>		
- Retail	488,406	359,064
- Corporate	129,675	25,071
<b>Total current accounts and deposits from customers</b>	<b>1,309,969</b>	<b>582,612</b>

As at December 31, 2023, the Bank had thirty-six customers (December 31, 2022: twenty-eight customers), whose balances exceeded AZN 1,000 thousand. The total amount of these balances as at December 31, 2023 was AZN 887,205 thousand (December 31, 2022: AZN 231,992 thousand).

As at December 31, 2023, the Bank maintained customer deposit balances of AZN 32,939 thousand (December 31, 2022: AZN 28,476 thousand) that served as collateral for loans and unrecognized credit instruments granted by the Bank.

As at December 31, 2023 deposits secured by the Azerbaijan Deposit Insurance Fund included in current accounts and deposits from customers in the amount of AZN 359,971 thousand (December 31, 2022: AZN 299,277 thousand).

Included in current accounts and deposits from customers in the amount of AZN 12,776 thousand as at December 31, 2023 represent accrued interest payable (December 31, 2022: AZN 8,171 thousand).

#### 21. BORROWED FUNDS AND SUBORDINATED BORROWINGS

	December 31, 2023	December 31, 2022
<b>Subordinated borrowings</b>	<b>36,954</b>	<b>36,021</b>
<b>Borrowed funds</b>		
Azerbaijan Mortgage and Credit Guarantee Fund	68,127	64,868
Entrepreneurship Development Fund	17,163	13,917
Azerbaijan State Agency on Agricultural Credits under the Ministry of Agriculture	4,374	4,912
Central Bank of the Republic of Azerbaijan	1,800	3,480
<b>Total borrowed funds</b>	<b>91,464</b>	<b>87,177</b>
<b>Total borrowed funds and subordinated borrowings</b>	<b>128,418</b>	<b>123,198</b>

## **“YELO BANK” OPEN JOINT-STOCK COMPANY**

### **NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)**

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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#### ***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, 2023 the Bank had AZN 68,127 thousand (December 31, 2022: AZN 64,868 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.

#### ***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, 2023, the Bank had AZN 17,163 thousand (December 31, 2022: AZN 13,917 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, 2023, the Bank had AZN 4,374 thousand (December 31, 2022: AZN 4,912 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, 2023 was AZN 1,800 thousand (December 31, 2022: AZN 3,480 thousand).

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### *Subordinated borrowings*

As at December 31, 2023, subordinated borrowings included a deposit placed by a non-related party in the amount of AZN 26,777 thousand and AZN 10,177 thousand (December 31, 2022: AZN 26,076 thousand and AZN 9,945 thousand) maturing in 2028 and 2023 (December 31, 2022: 2028 and 2023) and carried an annual interest rate of 2.75% and 3% (December 31, 2022: 2.75% and 3%). 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, 2023, included in borrowed funds and subordinated borrowings AZN 305 thousand and AZN 2,954 thousand represent accrued interest payable, respectively.

As at December 31, 2022, included in borrowed funds and subordinated borrowings AZN 274 thousand and AZN 2,020 thousand represent accrued interest payable, respectively.

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

	<b>Borrowed funds</b>	<b>Subordinated borrowings</b>	<b>Total</b>
<b>Balance at January 1, 2023</b>	<b>87,177</b>	<b>36,021</b>	<b>123,198</b>
<b>Changes from financing cash flows</b>			
Receipt	22,940	-	22,940
Repayment	(18,920)	-	(18,920)
<b>Total changes from financing cash flows</b>	<b>4,020</b>	<b>-</b>	<b>4,020</b>
<b>Other changes</b>			
Interest expense	2,834	933	3,767
Interest paid	(2,567)	-	(2,567)
<b>Balance at December 31, 2023</b>	<b>91,464</b>	<b>36,954</b>	<b>128,418</b>

	<b>Borrowed funds</b>	<b>Subordinated borrowings</b>	<b>Total</b>
<b>Balance at January 1, 2022</b>	<b>77,629</b>	<b>9,686</b>	<b>87,315</b>
<b>Changes from financing cash flows</b>			
Receipt	23,596	25,500	49,096
Repayment	(14,425)	-	(14,425)
<b>Total changes from financing cash flows</b>	<b>9,171</b>	<b>25,500</b>	<b>34,671</b>
<b>Other changes</b>			
Interest expense	2,774	835	3,609
Interest paid	(2,397)	-	(2,397)
<b>Balance at December 31, 2022</b>	<b>87,177</b>	<b>36,021</b>	<b>123,198</b>

**“YELO BANK” OPEN JOINT-STOCK COMPANY**

**NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)**

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

**22. LEASE LIABILITY**

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Lease liability (current)	2,843	2,833
Lease liability (non-current)	9,203	8,972
<b>Total lease liability</b>	<b>12,046</b>	<b>11,805</b>

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

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

Future minimum lease payments as at December 31, 2022 were as follows:

	<b>Minimum lease payments due</b>		
	<b>Within one year</b>	<b>One to ten years</b>	<b>Total</b>
Lease payments	2,986	13,073	16,059
Finance charges	(153)	(4,101)	(4,254)
<b>Net present value as at December 31, 2022</b>	<b>2,833</b>	<b>8,972</b>	<b>11,805</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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

	<b>Amount</b>
<b>Balance as at January 1, 2022</b>	<b>11,771</b>
<b>Cash flows</b>	
Repayment of principal	(1,655)
Interest paid	<u>(1,287)</u>
<b>Non-cash changes</b>	
New leases	1,284
Interest expense	1,287
Modifications	<u>405</u>
<b>Balance as at December 31, 2022</b>	<b><u>11,805</u></b>
<b>Cash flows</b>	
Repayment of principal	(1,301)
Interest paid	<u>(1,734)</u>
<b>Non-cash changes</b>	
New leases	191
Interest expense	1,734
Modifications	<u>1,351</u>
<b>Balance as at December 31, 2023</b>	<b><u>12,046</u></b>

### 23. OTHER LIABILITIES

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Settlements with employees	3,430	3,415
Settlement on other operations	3,105	1,318
Derivative financial instruments (see Note 7)	2,803	4,695
Accrued expenses	1,884	930
Payables to Deposit Insurance Fund	951	712
Compensation payables related to COVID-19	351	355
Compensation payables	234	235
Others	94	78
<b>Total other financial liabilities</b>	<b><u>12,852</u></b>	<b><u>11,738</u></b>
Other taxes payable	2,911	1,808
Other non-financial liabilities	68	57
<b>Total other non-financial liabilities</b>	<b><u>2,979</u></b>	<b><u>1,865</u></b>
<b>Total other liabilities</b>	<b><u>15,831</u></b>	<b><u>13,603</u></b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### 24. SHARE CAPITAL AND RESERVES

##### (a) Issued capital

As at December 31, 2023 the authorized, issued and outstanding share capital comprises 189,000,000 ordinary shares (December 31, 2022: 189,000,000). All shares have a nominal value of AZN 2 per share. During the year ended December 31, 2023 and 2022 no shares were issued or paid.

On March 17, 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 (98.04%) 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 2023 (December 31, 2022: nil).

#### 25. EARNINGS PER SHARE

##### Basic and diluted earnings per share

The calculation of basic earnings per share as at December 31, 2023 is based on the earnings attributable to ordinary shareholders of AZN 14,017 thousand (2022: AZN 5,624 thousand), and a weighted average number of ordinary shares outstanding of 189,000,000 (December 31, 2022: 189,000,000) calculated as follows.

	<u>2023</u>	<u>2022</u>
Net earnings attributable to ordinary shareholders	14,017	5,624
Weighted average number of ordinary shares for the year ended December 31 (thousands of shares)	<u>189,000</u>	<u>189,000</u>
<b>Basic and diluted earnings per share (AZN)</b>	<b><u>0.07</u></b>	<b><u>0.03</u></b>

#### 26. ANALYSIS BY SEGMENT

The majority of income from external customers relates to residents of the Republic of Azerbaijan.

The majority of non-current assets are located in the Republic of Azerbaijan. Other segment information was disclosed in the notes.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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#### **27. 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, 2023 the Supervisory Board included:

Marina Kulishova – Chairman of the Supervisory Board;  
Andrew Pospelovsky – Member of the Supervisory Board;  
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, 2023 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;  
Yashar Karimov – Deputy Chairman of the Management Board;  
Gunay Jalilova – Deputy Chairman 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.

## **“YELO BANK” OPEN JOINT-STOCK COMPANY**

### **NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)**

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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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.

The main functions of internal audit service 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 organisation (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 organisation'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.



## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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

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 service;
- the internal control (compliance) service;
- 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 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, analyse 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.

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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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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 CEO 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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### 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
<b>December 31, 2023</b>							
<b>ASSETS</b>							
Cash and cash equivalents	615,057	19,944	-	-	-	51,165	686,166
Due from banks	-	-	8,866	-	-	36,750	45,616
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
<b>Total financial assets</b>	<b>653,448</b>	<b>95,609</b>	<b>287,264</b>	<b>322,735</b>	<b>47,689</b>	<b>98674</b>	<b>1,505,419</b>
<b>LIABILITIES</b>							
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	10,176	-	-	26,778	-	-	36,954
Lease liability	258	501	2,084	8,809	394	-	12,046
Other financial liabilities	-	-	-	-	-	12,852	12,852
<b>Total financial liabilities</b>	<b>84,491</b>	<b>55,882</b>	<b>409,227</b>	<b>204,850</b>	<b>51,525</b>	<b>657,310</b>	<b>1,463,285</b>
<b>Net liquidity gap</b>	<b>568,957</b>	<b>39,727</b>	<b>(121,963)</b>	<b>117,885</b>	<b>(3,836)</b>	<b>(558,636)</b>	<b>42,134</b>
<b>December 31, 2022</b>							
<b>ASSETS</b>							
Cash and cash equivalents	42,739	9,401	-	-	-	52,929	105,069
Due from banks	-	-	-	-	-	23,736	23,736
Loans to customers	41,410	56,091	206,238	246,908	45,313	-	595,960
Investment securities	1,834	8,671	4,377	5,855	-	-	20,737
Other financial assets	-	-	-	-	-	7,499	7,499
<b>Total financial assets</b>	<b>85,983</b>	<b>74,163</b>	<b>210,615</b>	<b>252,763</b>	<b>45,313</b>	<b>84,164</b>	<b>753,001</b>
<b>LIABILITIES</b>							
Current accounts and deposits from customers	71,113	47,752	231,460	78,609	4	153,674	582,612
Other borrowed funds	1,252	1,964	10,123	24,758	49,080	-	87,177
Subordinated borrowings	1,444	-	8,500	-	26,077	-	36,021
Lease liability	251	490	2,092	6,809	2,163	-	11,805
Other financial liabilities	-	-	-	-	-	11,738	11,738
<b>Total financial liabilities</b>	<b>74,060</b>	<b>50,206</b>	<b>252,175</b>	<b>110,176</b>	<b>77,324</b>	<b>165,412</b>	<b>729,353</b>
<b>Net liquidity gap</b>	<b>11,923</b>	<b>23,957</b>	<b>(41,560)</b>	<b>142,587</b>	<b>(32,011)</b>	<b>(81,248)</b>	<b>23,648</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### *Average effective interest rates*

The table below displays average effective interest rates for interest-bearing assets and liabilities as at December 31, 2023 and 2022. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2023					2022		
	Average effective interest rate, %					Average effective interest rate, %		
	AZN	USD	EUR	RUB	Other currencies	AZN	USD	EUR
<b>Interest-bearing assets</b>								
Cash and cash equivalents	6.78%	4.08%	3.10%	13.40%	3.50%	5.43%	-	3.33%
Due from banks	-	4.25%	5.00%	-	-	-	-	-
Loans to customers	15.51%	5.95%	5.48%	-	-	15.51%	6.15%	5.33%
Investment securities	-	5.27%	2.56%	-	-	7.58%	4.35%	-
<b>Interest-bearing liabilities</b>								
Current accounts and deposits from customers	8.44%	2.43%	2.00%	-	-	9.63%	1.70%	0.50%
Other borrowed funds	2.93%	-	-	-	-	2.94%	-	-
Subordinated borrowings	-	2.81%	-	-	-	-	2.81%	-
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, 2023 and 2022 is as follows:

	December 31, 2023	December 31, 2022
100 bp parallel fall	(337)	(189)
100 bp parallel rise	337	189

#### *(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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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
<b>ASSETS</b>						
Cash and cash equivalents	99,462	8,194	41,797	358,289	178,424	686,166
Due from banks	27,482	3,759	14,375	-	-	45,616
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
<b>Total financial assets</b>	<b>838,371</b>	<b>72,181</b>	<b>58,154</b>	<b>358,289</b>	<b>178,424</b>	<b>1,505,419</b>
<b>Swap agreements</b>	<b>-</b>	<b>60,603</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>60,603</b>
<b>LIABILITIES</b>						
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	-	36,954	-	-	-	36,954
Lease liability	12,046	-	-	-	-	12,046
Other financial liabilities	12,357	461	34	-	-	12,852
<b>Total financial liabilities</b>	<b>745,406</b>	<b>168,270</b>	<b>13,536</b>	<b>357,728</b>	<b>178,345</b>	<b>1,463,285</b>
<b>Swap agreements</b>	<b>60,603</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>60,603</b>
<b>Net position</b>	<b>32,362</b>	<b>(35,486)</b>	<b>44,618</b>	<b>561</b>	<b>79</b>	

The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2022:

	AZN	USD	EUR	RUB	Other currencies	Total
<b>ASSETS</b>						
Cash and cash equivalents	73,513	18,426	12,818	283	29	105,069
Due from banks	16,955	6,781	-	-	-	23,736
Loans to customers	551,987	43,681	292	-	-	595,960
Investment securities	6,633	14,104	-	-	-	20,737
Other financial assets	7,002	475	22	-	-	7,499
<b>Total financial assets</b>	<b>656,090</b>	<b>83,467</b>	<b>13,132</b>	<b>283</b>	<b>29</b>	<b>753,001</b>
<b>Swap agreements</b>	<b>5,100</b>	<b>74,525</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79,625</b>
<b>LIABILITIES</b>						
Current accounts and deposits from customers	460,308	109,056	13,014	220	14	582,612
Other borrowed funds	87,177	-	-	-	-	87,177
Subordinated borrowings	-	36,021	-	-	-	36,021
Lease liability	11,805	-	-	-	-	11,805
Other financial liabilities	10,648	1,074	16	-	-	11,738
<b>Total financial liabilities</b>	<b>569,938</b>	<b>146,151</b>	<b>13,030</b>	<b>220</b>	<b>14</b>	<b>729,353</b>
<b>Swap agreements</b>	<b>74,525</b>	<b>5,100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79,625</b>
<b>Net position</b>	<b>16,727</b>	<b>6,741</b>	<b>102</b>	<b>63</b>	<b>15</b>	

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

A weakening of the AZN, as indicated below, against the following currencies at December 31, 2023 and 2022, 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.

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
20% appreciation of USD against AZN	3,345	1,348
20% appreciation of EUR against AZN	1,348	20

A strengthening of the AZN against the above currencies at December 31, 2023 and 2022 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.

#### **(f) 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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>ASSETS</b>		
Cash and cash equivalents (excluding cash on hand)	661,984	86,190
Due from banks	45,616	23,736
Loans to customers (excluding cash deposits and precious metals)	724,209	570,133
Investment securities (excluding equity securities)	6,985	20,737
Other financial assets	10,759	7,499
<b>Total maximum exposure</b>	<b>1,449,553</b>	<b>708,295</b>

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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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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 three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and
- 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.



## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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-	
8	Baa1	BBB+	BBB+	
9	Baa2	BBB	BBB	
10	Baa3	BBB-	BBB-	
11	Ba1	BB+	BB+	Decrease of rating by 2 notches
12	Ba2	BB	BB	
13	Ba3	BB-	BB-	
14	B1	B+	B+	Decrease of rating by 1 notch
15	B2	B	B	
16	B3	B-	B-	
17	Caa1	CCC-C	CCC-C	
18	Caa2			
19	Caa3			
20	Ca-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 behaviour 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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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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.

#### *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 considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – 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. For other segments default is identified on individual exposure level; and
- based on data developed internally and obtained from external sources.

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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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, 2023 included the following key indicators for the Republic of Azerbaijan for the years ending December 31, 2024 through 2026.

<b>Key driver</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
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.

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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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#### *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.

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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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)	Moody’s default study	Moody’s recovery studies
Due from banks	Moody’s default study	Moody’s recovery studies
Investment securities	Moody’s default study	Moody’s recovery studies
Other financial assets	Moody’s default study	Moody’s recovery studies

#### (g) 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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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.

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, 2023 is as follows:

	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total gross amount outflow</b>	<b>Carrying amount</b>
<b>LIABILITIES</b>							
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	10,177	-	-	29,748	-	39,925	36,954
Lease liability	258	512	2,226	12,164	785	15,945	12,046
Other financial liabilities	12,852	-	-	-	-	12,852	12,852
<b>Total financial liabilities</b>	<b>745,792</b>	<b>63,283</b>	<b>432,153</b>	<b>226,132</b>	<b>78,867</b>	<b>1,546,227</b>	<b>1,463,285</b>
<b>Credit-related commitments</b>	<b>44,563</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,563</b>	<b>44,563</b>

The maturity analysis for financial liabilities as at December 31, 2022 is as follows:

	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total gross amount outflow</b>	<b>Carrying amount</b>
<b>LIABILITIES</b>							
Current accounts and deposits from customers	227,337	52,410	243,872	83,194	5	606,818	582,612
Other borrowed funds	1,453	2,382	12,043	32,650	75,382	123,910	87,177
Subordinated borrowings	1,466	43	8,665	-	29,708	39,882	36,021
Lease liability	250	500	2,236	9,081	3,992	16,059	11,805
Other financial liabilities	11,738	-	-	-	-	11,738	11,738
<b>Total financial liabilities</b>	<b>242,244</b>	<b>55,335</b>	<b>266,816</b>	<b>124,925</b>	<b>109,087</b>	<b>798,407</b>	<b>729,353</b>
<b>Credit-related commitments</b>	<b>30,883</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,883</b>	<b>30,883</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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

	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>No maturity</b>	<b>Overdue</b>	<b>Total</b>
Cash and cash equivalents	666,222	19,944	-	-	-	-	-	686,166
Due from banks	-	-	8,866	-	-	36,750	-	45,616
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
<b>Total financial assets</b>	<b>712,394</b>	<b>95,624</b>	<b>287,395</b>	<b>323,933</b>	<b>47,708</b>	<b>36,750</b>	<b>1,615</b>	<b>1,505,419</b>
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	10,176	-	-	26,778	-	-	-	36,954
Lease liability	258	501	2,084	8,809	394	-	-	12,046
Other financial liabilities	12,852	-	-	-	-	-	-	12,852
<b>Total financial liabilities</b>	<b>741,801</b>	<b>55,882</b>	<b>409,227</b>	<b>204,850</b>	<b>51,525</b>	<b>-</b>	<b>-</b>	<b>1,463,285</b>
<b>Net position</b>	<b>(29,407)</b>	<b>39,742</b>	<b>(121,832)</b>	<b>119,083</b>	<b>(3,817)</b>	<b>36,750</b>	<b>1,615</b>	<b>42,134</b>
<b>Cumulative liquidity gap</b>	<b>(29,407)</b>	<b>10,335</b>	<b>(111,497)</b>	<b>7,586</b>	<b>3,769</b>	<b>40,519</b>	<b>42,134</b>	

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at December 31, 2022:

	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>No maturity</b>	<b>Overdue</b>	<b>Total</b>
Cash and cash equivalents	95,668	9,401	-	-	-	-	-	105,069
Due from banks	-	-	-	-	-	23,736	-	23,736
Loans to customers	38,420	56,091	206,238	246,908	45,313	-	2,990	595,960
Investment securities	1,834	8,671	4,377	5,855	-	-	-	20,737
Other financial assets	6,862	-	170	467	-	-	-	7,499
<b>Total financial assets</b>	<b>142,784</b>	<b>74,163</b>	<b>210,785</b>	<b>253,230</b>	<b>45,313</b>	<b>23,736</b>	<b>2,990</b>	<b>753,001</b>
Current accounts and deposits from customers	224,786	47,752	231,460	78,609	5	-	-	582,612
Other borrowed funds	1,252	1,964	10,123	24,758	49,080	-	-	87,177
Subordinated borrowings	1,444	-	8,500	-	26,077	-	-	36,021
Lease liability	251	490	2,092	6,809	2,163	-	-	11,805
Other financial liabilities	11,738	-	-	-	-	-	-	11,738
<b>Total financial liabilities</b>	<b>239,471</b>	<b>50,206</b>	<b>252,175</b>	<b>110,176</b>	<b>77,325</b>	<b>-</b>	<b>-</b>	<b>729,353</b>
<b>Net position</b>	<b>(96,687)</b>	<b>23,957</b>	<b>(41,390)</b>	<b>143,054</b>	<b>(32,012)</b>	<b>23,736</b>	<b>2,990</b>	<b>23,648</b>
<b>Cumulative liquidity gap</b>	<b>(96,687)</b>	<b>(72,730)</b>	<b>(114,120)</b>	<b>28,934</b>	<b>(3,078)</b>	<b>20,658</b>	<b>23,648</b>	

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, 2023 and 2022. The following table shows the mandatory liquidity ratios calculated as at December 31, 2023 and 2022.

	<b>Requirement</b>	<b>2023 (unaudited)</b>	<b>2022 (unaudited)</b>
<b>Instant liquidity ratio</b>	Not less than 30%	81.08%	52.80%



## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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#### **(h) 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.

## **28. 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, 2023, this minimum level was 10% (December 31, 2022: 10%). The Bank was in compliance with the statutory capital ratio as at December 31, 2023 and 2022.

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:

	<b>December 31, 2023 (unaudited)</b>	<b>December 31, 2022 (unaudited)</b>
Total statutory capital	109,762	93,405
Risk-weighted assets	983,995	711,648
<b>Capital adequacy ratio (%)</b>	<b>11.15%</b>	<b>13.13%</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### 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.

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
<b>Contracted amount</b>		
Guarantees issued	9,168	6,240
Undrawn credit lines	35,395	24,643
<b>Total credit-related commitments and guarantees</b>	<b>44,563</b>	<b>30,883</b>
<b>Provision</b>	<b>(632)</b>	<b>(645)</b>

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.

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

	<u>2023</u>		<u>2022</u>	
	<u>Stage 1</u>	<u>Total</u>	<u>Stage 1</u>	<u>Total</u>
<b>Provisions</b>				
<b>Balance at January 1</b>	<b>645</b>	<b>645</b>	<b>619</b>	<b>619</b>
Net remeasurement of loss allowance	(13)	(13)	26	26
<b>Balance at December 31</b>	<b>632</b>	<b>632</b>	<b>645</b>	<b>645</b>

## **“YELO BANK” OPEN JOINT-STOCK COMPANY**

### **NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)**

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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#### **29. 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.

#### **30. RELATED PARTY TRANSACTIONS**

##### **(a) Control relationships**

The Bank’s parent company was “Topaz Investment Limited” CJSC (the “Parent”) until March 2022. The Bank was ultimately controlled by a single individual, Mr. Vagit Alekperov, until March 2022. From March 2022, the Bank was ultimately controlled by a single individual, Ms. Marina Kulishova.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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

Total remuneration included in personnel expenses for the years ended December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Short-term employee benefits	(6,580)	(5,712)
Total short-term employee benefits	<u>(6,580)</u>	<u>(5,712)</u>

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

The outstanding balances and average effective interest rates as at December 31, 2023 and 2022 for transactions with the members of the Supervisory Board and the Management Board are as follows:

	<u>2023</u>	<u>Average effective interest rate</u>	<u>2022</u>	<u>Average effective interest rate</u>
<b>Statement of financial position</b>				
Loans issued (gross)	386	8.7%	465	9%
Loan impairment allowance	-	-	3	-
Customer accounts	1,593	7.1%	412	9%
Commitments on loans and undrawn credit lines	44	13.9%	39	11%
Other liability	2,434	-	1,900	-

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, are as follows:

	<u>2023</u>	<u>2022</u>
<b>Profit or loss</b>		
Interest income calculated using the effective interest rate	28	30
Interest expense	(79)	(44)
Other general and administrative expenses	(340)	(285)
Impairment losses	-	(3)

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

#### (c) Transactions with other related parties

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		Other related parties		Total
		Average interest rate, %		Average interest rate, %		Average interest rate, %	
<b>Statement of financial position</b>							
<b>ASSETS</b>							
Other assets	-	-	-	-	103	-	103
<b>LIABILITIES</b>							
Customer accounts	20,119	8.57%	195	7.8%	268,330	1.01%	288,644
Other liability	28	-	15	-	-	-	43
<b>Profit (loss)</b>							
Interest income	59	-	-	-	-	-	59
Interest expense	(1,892)	-	(11)	-	(2,035)	-	(3,938)
Fee com income	10	-	1	-	7	-	18
Other general and administrative expenses	-	-	(72)	-	-	-	(72)
Net gain on trading in foreign currencies	40	-	-	-	356	-	396

The outstanding balances and the related average effective interest rates as at December 31, 2022 and related profit or loss amounts of transactions for the year ended December 31, 2022 with other related parties are as follows:

	Ultimate controlling party		Shareholders		Other related parties		Total
		Average interest rate, %		Average interest rate, %		Average interest rate, %	
<b>Statement of financial position</b>							
<b>ASSETS</b>							
Other assets	-	-	-	-	269	-	269
<b>LIABILITIES</b>							
Customer accounts	26,870	9%	36	6%	16,763	1.14%	43,669
Other liability	28	-	479	-	-	-	507
Commitments on loans and unused credit lines	-	-	-	-	5	1%	5
<b>Profit (loss)</b>							
Interest income	-	-	-	-	-	-	-
Interest expense	(1,399)	-	(70)	-	(33)	-	(1,502)
Fee com income	24	-	1	-	182	-	207
Fee com expense	-	-	-	-	(95)	-	(95)
Other general and administrative expenses	-	-	(42)	-	(50)	-	(92)
Net gain on trading in foreign currencies	561	-	-	-	85	-	646
Net result from foreign currency derivatives	341	-	-	-	-	-	341

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

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

### 31. 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, 2023:

	Amortized cost	Total carrying amount	Fair value
Cash and cash equivalents	686,166	686,166	686,166
Due from banks	45,616	45,616	45,616
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
	<b>1,505,419</b>	<b>1,505,419</b>	<b>1,505,419</b>
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	36,954	36,954	36,954
Lease liability	12,046	12,046	12,046
Other financial liabilities	12,852	12,852	12,852
	<b>1,463,285</b>	<b>1,463,285</b>	<b>1,463,285</b>

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2022:

	Amortized cost	FVOCI	Total carrying amount	Fair value
Cash and cash equivalents	105,069	-	105,069	105,069
Due from banks	23,736	-	23,736	23,736
Loans to customers	595,960	-	595,960	595,960
Investment securities	14,111	6,626	20,737	20,737
Other financial assets	7,499	-	7,499	7,499
	<b>746,375</b>	<b>6,626</b>	<b>753,001</b>	<b>753,001</b>
Current accounts and deposits from customers	582,612	-	582,612	582,612
Other borrowed funds	87,177	-	87,177	87,177
Subordinated borrowings	36,021	-	36,021	36,021
Lease liability	11,805	-	11,805	11,805
Other financial liabilities	11,738	-	11,738	11,738
	<b>729,353</b>	<b>-</b>	<b>729,353</b>	<b>729,353</b>

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

*(In thousands of Azerbaijan Manats, unless otherwise indicated)*

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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.

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.

## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(In thousands of Azerbaijan Manats, unless otherwise indicated)

- **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.

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>
<b>ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED</b>					
Cash and cash equivalents	686,166	-	-	686,166	686,166
Due from banks	-	-	45,616	45,616	45,616
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
<b>LIABILITIES MEASURED AT FAIR VALUE</b>					
Derivative financial liabilities	-	-	2,803	2,803	2,803
<b>LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED</b>					
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	-	-	36,954	36,954	36,954
Lease liability	-	-	12,046	12,046	12,046
Other financial liabilities	-	-	12,852	12,852	12,852



## “YELO BANK” OPEN JOINT-STOCK COMPANY

### NOTES TO, AND FORMING PART OF, THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued) (In thousands of Azerbaijan Manats, unless otherwise indicated)

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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair values</u>	<u>Total carrying amount</u>
<b>ASSETS MEASURED AT FAIR VALUE</b>					
Derivative financial assets	-	-	350	350	350
Investment securities	6,626	-	-	6,626	6,626
<b>ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED</b>					
Cash and cash equivalents	105,069	-	-	105,069	105,069
Due from banks	-	-	23,736	23,736	23,736
Loans to customers	-	-	595,960	595,960	595,960
Investment securities	14,111	-	-	14,111	14,111
Other financial assets	-	-	7,499	7,499	7,499
<b>LIABILITIES MEASURED AT FAIR VALUE</b>					
Derivative financial liabilities	-	-	4,695	4,695	4,695
<b>LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED</b>					
Current accounts and deposits from customers	-	-	582,612	582,612	582,612
Other borrowed funds	-	-	87,177	87,177	87,177
Subordinated borrowings	-	-	36,021	36,021	36,021
Lease liability	-	-	11,805	11,805	11,805
Other financial liabilities	-	-	11,738	11,738	11,738

### 32. EVENTS AFTER THE REPORTING PERIOD

On March 28, 2024 the Central Bank of the Republic of Azerbaijan increased the refinancing rate to 7.75%.

Mr. Anar Hasanov  
Chief Executive Officer

April 22, 2024  
Baku, the Republic of Azerbaijan

Mr. Emil Dushdurov  
Chief Financial Officer

April 22, 2024  
Baku, the Republic of Azerbaijan

Mr. Ayaz Ismayilov  
Chief Accountant

April 22, 2024  
Baku, the Republic of Azerbaijan