

**“FINCA AZERBAIJAN”  
LIMITED LIABILITY NON-BANKING CREDIT  
ORGANIZATION**

**International Financial Reporting Standards  
Financial Statements and  
Independent Auditor’s Report**

**31 December 2024**

**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

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## Independent Auditor's Report

To the Founder and the Management Board of "Finca Azerbaijan" Limited Liability Non-Banking Credit Organization

### *Report on the Audit of the Financial Statements*

#### Opinion

We have audited the financial statements of "Finca Azerbaijan" Limited Liability Non-Banking Credit Organization (the Company), which comprise the statement of financial position as of 31 December 2024, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International *Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), as applicable to audits of financial statements of public interest entities, together with the ethical requirements that are relevant to audits of the financial statements of public interest entities in Azerbaijan. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Matter

The financial statements of the Company for the year ended 31 December 2023 were audited by another auditor who expressed an unmodified opinion on those statements on 29 April 2024.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in our report
<b>1. Expected credit loss against loans to customers</b>	
<p>As disclosed in Note 7 to the financial statements, the Company's loans to customers represented 83.37% of its total assets as of 31 December 2024. As per IFRS 9 "Financial Instruments" the Company provided for expected credit loss, which requires a forward-looking approach to estimate the Expected Credit Loss (ECL) against loans and other financial instruments.</p> <p>The estimation of expected credit losses requires management to apply material judgements and estimation techniques to determine the probability of default (PD), projected exposure at default (EAD) and loss arising at default (LGD), considering the observation of historical data, current economic situation and available forward-looking information.</p> <p>The measurement of ECL involves evaluating a range of possible outcomes, considering the time value of money, and incorporating reasonable and supportable information available at the reporting date about past events, current conditions, and forecasts of future economic conditions. The net provision made during the year is charged to the statement of profit or loss and other comprehensive income and accumulated provision is netted-off against loans to customers.</p> <p>The Company recognised a net credit loss allowance / provision against loans amounting to USD 0.212 million in the statement of profit or loss and other comprehensive income in the current year. As at 31 December 2024, the Company held a credit loss allowance / provision of USD 2,188 million against loans to customers.</p> <p>Provision for expected credit losses for loans to customers is a key audit matter due to the significance of the balances to the Company's financial position and the complexity and judgement related to estimation of ECL under IFRS 9 "Financial Instruments".</p>	<p>Our audit procedures to verify provision for expected credit loss against loans to customers included, amongst others, the following:</p> <p>We obtained and updated our understanding of management's assessment of expected credit loss in respect of loans to customers including the Company's internal rating model, accounting policy, model methodology including any key changes made during the year.</p> <p>We obtained an understanding of the design and tested the operating effectiveness of the relevant controls established by the Company to identify loss events and for determining the extent of provisioning required against loans to customers.</p> <p>The testing of controls included testing of:</p> <ul style="list-style-type: none"> <li>• controls over correct classification of loans type;</li> <li>• controls over monitoring of loans to customers with higher risk of default and correct classification of non-performing loans on subjective criteria;</li> <li>• controls over accurate computation and recording of provisions; and</li> <li>• controls over the governance and approval process related to provisions, including continuous reassessment by the management.</li> </ul> <p>We selected a sample of loans to customers and performed the following substantive procedures:</p> <ul style="list-style-type: none"> <li>• assessed the reasonableness and accuracy of the data used for ECL computation based on accounting records and information system of the Company as well as the related external sources used for this purpose;</li> <li>• checked repayments of advances / mark-up instalments and tested classification of advances based on the number of days overdue;</li> <li>• tested the staging of loans to customers as per the criteria of Company and in accordance with IFRS 9;</li> <li>• assessed the ECL model used by the management to calculate expected credit loss against loans of the Company for appropriateness of the assumptions used and the methodology applied. We also tested the mathematical accuracy of the model;</li> <li>• assessed the reasonableness of the forward-looking assumptions used by the management in calculation of ECL; and</li> <li>• assessed the relevant disclosures made in the financial statements to determine whether these are complied with the accounting and reporting standards as applicable;</li> <li>• assessed whether the disclosures in financial statement appropriately reflect the Company's exposure to credit risk.</li> </ul>

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

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

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

## Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yunis Salayev.

*BDO Azerbaijan LLC*

21 May 2025

Baku, Azerbaijan



**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

**STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2024**

*(In thousands of US Dollars, unless otherwise indicated)*

	Notes	31 December 2024	31 December 2023
<b>ASSETS:</b>			
Cash and cash equivalents	6	5,004	1,603
Loans to customers, net	7	37,600	33,259
Property, equipment and intangible assets	8	565	359
Right-of-use assets	9	600	528
Deferred income tax assets	17	333	271
Current income tax		311	-
Other assets	10	515	428
<b>Total assets</b>		<b>44,928</b>	<b>36,448</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Borrowed funds	11, 18	28,039	18,454
Debt securities issued	12	4,283	5,294
Lease liabilities	13	634	540
Other liabilities	14, 18	1,329	1,651
<b>Total liabilities</b>		<b>34,285</b>	<b>25,939</b>
<b>EQUITY:</b>			
Share capital	15	4,205	4,205
Retained earnings		27,991	27,857
Cumulative translation reserves		(21,553)	(21,553)
<b>Total equity</b>		<b>10,643</b>	<b>10,509</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>44,928</b>	<b>36,448</b>

On behalf of the Management Board:

**Timothy Tarrant**  
Chief Executive Officer

21 May 2025  
Baku, the Republic of Azerbaijan



**Rugiyeva Aliyeva**  
Chief Financial Officer

21 May 2025  
Baku, the Republic of Azerbaijan

The notes on pages 10-59 form an integral part of these financial statements.

**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

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

*(In thousands of US Dollars, unless otherwise indicated)*

	Notes	Year ended 31 December 2024	Year ended 31 December 2023
Interest income	16	11,977	10,419
Interest expense	16, 19	<u>(3,066)</u>	<u>(2,412)</u>
<b>Net interest income before recovery of expected credit losses</b>		<b>8,911</b>	<b>8,007</b>
Recovery of expected credit losses	7	<u>1,225</u>	<u>1,555</u>
<b>Net interest income</b>		<b>10,136</b>	<b>9,562</b>
Administrative and operating expenses	17, 19	(7,741)	(6,667)
Net results from foreign currency derivatives	14	(407)	(249)
Loss from change in fair value of repossessed collaterals	10	-	(47)
Other income/(expense), net		<u>53</u>	<u>55</u>
<b>Net non-interest loss</b>		<b><u>(8,095)</u></b>	<b><u>(6,908)</u></b>
<b>Profit before income tax</b>		<b>2,041</b>	<b>2,654</b>
Income tax expense	18	<u>(185)</u>	<u>(356)</u>
<b>Net profit for the year</b>		<b><u>1,856</u></b>	<b><u>2,298</u></b>
<b>Total comprehensive income for the year</b>		<b><u>1,856</u></b>	<b><u>2,298</u></b>

On behalf of the Management Board:

**Timothy Tarrant**  
Chief Executive Officer

21 May 2025  
Baku, the Republic of Azerbaijan



**Rugiyeva Aliyeva**  
Chief Financial Officer

21 May 2025  
Baku, the Republic of Azerbaijan

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**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

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

*(In thousands of US Dollars, unless otherwise indicated)*

	Share capital	Retained earnings	Cumulative translation reserve	Total equity
<b>1 January 2023</b>	<u>4,205</u>	<u>26,904</u>	<u>(21,553)</u>	<u>9,556</u>
Total comprehensive income for the year	-	2,298	-	2,298
Dividends declared	-	(1,345)	-	(1,345)
<b>31 December 2023</b>	<u>4,205</u>	<u>27,857</u>	<u>(21,553)</u>	<u>10,509</u>
Total comprehensive income for the year	-	1,856	-	1,856
Dividends declared	-	(1,722)	-	(1,722)
<b>31 December 2024</b>	<u>4,205</u>	<u>27,991</u>	<u>(21,553)</u>	<u>10,643</u>

On behalf of the Management Board:

\_\_\_\_\_  
**Timothy Tarrant**  
Chief Executive Officer

21 May 2025  
Baku, the Republic of Azerbaijan



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**Rugiyya Aliyeva**  
Chief Financial Officer

21 May 2025  
Baku, the Republic of Azerbaijan

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**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

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

*(In thousands of US Dollars, unless otherwise indicated)*

	Notes	Year ended 31 December 2024	Year ended 31 December 2023
<b>Cash flows from operating activities:</b>			
Profit before income tax		2,041	2,654
Adjustments for non-cash items:			
Recovery of expected credit losses	7	(1,225)	(1,555)
Depreciation and amortization	8, 9, 17	611	551
Net change in accrued interest		128	169
Unrecognized loss from foreign currency derivatives	14	(238)	171
Loss from change in fair value of repossessed collaterals		-	47
		<u>1,317</u>	<u>2,037</u>
<b>Cash inflow from operating activities before changes in operating assets and liabilities</b>			
Changes in operating assets and liabilities			
Loans to customers, net		(3,115)	(5,011)
Other assets		(353)	(195)
Other liabilities		40	256
		<u>(2,111)</u>	<u>(2,913)</u>
<b>Net cash outflow from operating activities</b>			
<b>Cash flows from investing activities:</b>			
Payment for property and equipment and intangible assets		(402)	(195)
		<u>(402)</u>	<u>(195)</u>
<b>Net cash outflow from investing activities</b>			
<b>Cash flows from financing activities:</b>			
Proceeds from borrowed funds	11	17,265	9,983
Repayment of borrowed funds	11	(8,132)	(4,696)
Transaction cost paid on borrowed funds	11	(71)	(337)
Proceeds from debt security issued	12	2,500	1,765
Repayment of debt securities	12	(3,529)	(1,765)
Transaction cost paid on debt securities issued	12	(38)	(55)
Repayment of principal portion on lease liabilities	13	(359)	(324)
Dividends paid		(1,722)	(1,345)
		<u>5,914</u>	<u>3,226</u>
<b>Net cash inflow from financing activities</b>			
Net increase/(decrease) in cash and cash equivalents		3,401	118
CASH AND CASH EQUIVALENTS, <i>beginning of the year</i>	6	1,603	1,485
CASH AND CASH EQUIVALENTS, <i>end of the year</i>	6	<u>5,004</u>	<u>1,603</u>

On behalf of the Management Board:

**Timothy Tarrant**  
Chief Executive Officer

21 May 2025  
Baku, the Republic of Azerbaijan



**Rugiyya Aliyeva**  
Chief Financial Officer

21 May 2025  
Baku, the Republic of Azerbaijan

The notes on pages 10-59 form an integral part of these financial statements.

**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2024**

*(In thousands of US dollars, unless otherwise indicated)*

**1. INTRODUCTION**

**Company and its principal activity**

“FINCA Azerbaijan” Limited Liability Non-Banking Credit Organization (the “Company”) was incorporated in the Republic of Azerbaijan in 1998. Until November 19, 1999, it was registered as a representative office of FINCA International Inc. in Azerbaijan. On November 19, 1999, the Company was registered with the Azerbaijan Ministry of Justice and obtained the status of a legal entity. The Company was reregistered to comply with the regulations of the Central Bank of the Republic of Azerbaijan, in accordance with which only legal entities can perform lending activities on the territory of Azerbaijan. The new entity obtained a license for lending activities from the Central Bank of Azerbaijan on February 29, 2000. The address of the Company’s registered office is 44 Jafar Jabbarly Street, Baku AZ1065, Azerbaijan.

The Company’s objective is to provide financial services including loans to representatives of micro, small and medium-sized businesses in the Republic of Azerbaijan and to individuals and groups of individuals engaged in sales and small-scale productive micro-enterprises.

As at 31 December 2024 and 2023, the Company had 26 and 25 branches respectively operating in the Republic of Azerbaijan. The Company had an average of 347 employees as at 31 December 2024 (31 December 2023 311 employees).

The Company is a subsidiary of FINCA Microfinance Coöperatief U.A., which has a registered office in the Netherlands. The ultimate controlling party of the Company is FINCA International Inc., a not-for-profit corporation, incorporated in New York, United States of America. In October 2010, FINCA International Inc. formed FINCA Microfinance Holding Company LLC (“FMH”) to become a 100% owned holding company.

As at 31 December 2024 and 2023, the following shareholders owned the Company:

	<b>31 December 2024, %</b>	<b>31 December 2023, %</b>
<b>Shareholder of the Company (Shareholder of the first level)</b>		
FINCA Microfinance Cooperatief U.A.	100.00	100.00
<b>Total</b>	<b>100.00</b>	<b>100.00</b>
	<b>31 December 2024, %</b>	<b>31 December 2023, %</b>
<b>Ultimate shareholders of the Company</b>		
FINCA International, Inc.	88.14	65.89
International Finance Corporation	-	14.27
Kreditanstalt für Wiederaufbau	11.86	8.87
FMO (Nederlandse Financierings Maatschappij voor Ontwikkelingslanden	-	7.25
Triodos Investment Management, representing:		
(i) Triodos Custody B.V. in its capacity as custodian of Triodos Fair Share Fund; and		
(ii) Triodos SICAV II – Triodos Microfinance Fund	-	2.05
Triple Jump, acting for ASN-NOVIB FONDS	-	1.67
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)**  
*(In thousands of US dollars, unless otherwise indicated)*

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**Operating environment of the Company**

The Company’s operations are conducted in the Republic of Azerbaijan. The Company 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 depreciation of Azerbaijani Manat in 2015-2016 years has led to significant uncertainties in the 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.

Inflation rate increased from 8.8% in December 2023 to 2.2% in December 2024.

The economy of Azerbaijan expanded 4.1 percent year-on-year in January-December period 2024, increasing from a 1.1 % growth in the same period last year. The non-oil & gas sector increased by 6.2 %, while the oil & gas sector increased 0.3 %. From the production side, the strongest contributions came from industry (49 %) and services (39 %). Additional support was seen in manufacturing (6%). The GDP reached AZN 126.31 billion (USD 74.3 billion) in 2024 with 2.69% growth compared to 2023.

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 from prior years.

By the end of December 2024 number of active plastic cards increased to a historic high of 24,000 thousand compared to 16,925 thousand in 2023.

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 Company’s operations and consequently what effect, if any, they could have on the financial position of the Company.

## “FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued) *(In thousands of US dollars, unless otherwise indicated)*

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#### 2. MATERIAL ACCOUNTING POLICIES

##### Statement of compliance

These financial statements for the year ended 31 December 2024 have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

##### Going concern

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

Management views the Company as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations of the Republic of Azerbaijan. Accordingly, assets and liabilities are recorded on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the Company’s ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern.

Management’s assessment of the going concern assumption involves making a judgment, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain.

##### Other basis of presentation criteria

These financial statements have been prepared under the historical cost convention, except measurement at fair value of certain financial instruments. These financial statements are presented in thousands of US dollars (“USD”) which is presentation currency and the functional currency of the Company is Azerbaijani Manat (“AZN”), unless otherwise indicated.

The Company maintains its accounting records in accordance with the laws of the Republic of Azerbaijan. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

##### Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

##### Financial instruments - key measurement terms

Depending on their classification, financial instruments are carried at fair value or amortized cost as described below.

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

## “FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued) (In thousands of US dollars, unless otherwise indicated)

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

- (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
- (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and
- (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 21.

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

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method is a method of allocating the interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

#### **Initial recognition of financial instruments**

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

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

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

#### **Classification of financial instruments**

A financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (“FVTOCI”) or fair value through profit or loss (“FVTPL”).

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

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

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:

## “FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued) (In thousands of US dollars, unless otherwise indicated)

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

On initial recognition of an equity investment that is not held for trading, the Company 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.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVTOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

#### **Business model assessment**

The Company 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 realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company’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 Company’s stated objective for managing the financial assets is achieved and how cash flows are realized.

#### **Assessment 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 Company 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 Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company’s claim to the 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 of financial assets**

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. The reclassification has a prospective effect.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)**  
*(In thousands of US dollars, unless otherwise indicated)*

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**Financial assets impairment – credit loss allowance for ECL**

The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVTOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Company measures ECL and recognizes credit loss allowance at each reporting date. The measurement of ECL reflects:

- (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes,
- (ii) time value of money and
- (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognized as a liability in the statement of financial position. For debt instruments at FVTOCI, changes in amortized cost, net of allowance for ECL, are recognized in profit or loss and other changes in carrying value are recognized in OCI as gains less losses on debt instruments at FVTOCI.

The Company applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 months ECL”). If the Company identifies SICR since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). Refer to Note 23 for a description of how the Company determines when a SICR has occurred. If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Company’s definition of credit-impaired assets and definition of default is explained in Note 23. For financial assets that are purchased or originated credit-impaired (“POCI Assets”), the ECL is always measured as a Lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired. Note 23 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

**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 Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company 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; and
- debt instruments measured at FVTOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

**Derecognition of financial assets**

The Company derecognizes financial assets when

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

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

## “FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued) (In thousands of US dollars, unless otherwise indicated)

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#### Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at calls with Companies, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because:

- (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and
- (ii) they are not designated at FVTPL.

Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

#### Loans to customers, net

Loans to customers are recorded when the Company advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Company classifies loans and advances to customers into one of the following measurement categories:

- (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and
- (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVTOCI are measured at FVTPL.

#### Write-off

Financial assets are written off when the Company has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Company 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. A write-off constitutes a derecognition event.

The Company may apply enforcement activities to financial assets written off. Recoveries resulting from the Company's enforcement activities will result in gain from the reversal of ECL.

#### Financial liabilities and equity

##### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### Financial liabilities

Financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

##### Borrowed funds

Borrowed funds are initially recognized at cost, being the fair value of the consideration received, net of issue costs associated with the borrowing. After initial recognition, interest-bearing borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the income statement when the liabilities are derecognized or impaired, as well as through the amortization process.

##### Debt securities issued

Debt securities issued are stated at amortized cost. If the Company purchases its own debt securities issued, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)**  
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**Derivative financial instrument**

Foreign exchange derivative financial instrument entered into by the Company is traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

Derivatives have potentially favorable (assets) or unfavorable (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.

**Company as a lessee**

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

**Right-of-use assets**

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

If the ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

**Lease liabilities**

At the commencement date of the lease, the Company 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 Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

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

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is 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.

**Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and impairment losses.

At each reporting date, the Company assesses whether there is any indication of impairment of property and equipment. If such indication exists, the Company estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of property and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as an impairment loss to the statement of profit or loss.

Repairs and maintenance are charged to the statement of profit or loss when the expense is incurred.

## “FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued) (In thousands of US dollars, unless otherwise indicated)

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Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Furniture and office equipment	20-33%
Computer equipment	33%
Other assets	20%
Right-of-use assets	over the term of the underlying lease

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

#### **Intangible assets**

Intangible assets include investment into a software license and its customization.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from the de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

At the end of each reporting period, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Amortization is recognized so as to write off the cost of intangible assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the annual rate ranges from 10% to 33%.

#### **Repossessed collateral**

The Company obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Company a claim on these assets for both existing and future customer liabilities.

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed collateral is initially recognized at an amount equal to the carrying amount of a loan for which it was pledged. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

## **“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)** *(In thousands of US dollars, unless otherwise indicated)*

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Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

#### **Recognition of interest income and expense**

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

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

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

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- (i) financial assets that have become credit-impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC (net of the ECL provision); and
- (ii) financial assets that are purchased or originated credit-impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

#### **Recognition of fee and commission income**

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

## “FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued) (In thousands of US dollars, unless otherwise indicated)

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#### Retirement and other benefit obligations

In accordance with the requirements of the legislation of the Republic of Azerbaijan state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the State Social Protection Fund. The Company does not have any pension arrangements separate from the arrangement provided by the State Social Protection Fund of the Republic of Azerbaijan. In addition, the Company has no post-retirement benefits or other significant compensated benefits requiring accrual.

#### Operating taxes

The Republic of Azerbaijan also has various other taxes, which are assessed on the Company's activities. These taxes are included as a component of operating expenses in the statement of profit or loss.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

#### Foreign currency translation

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

The results and financial position of the Company are translated into the presentation currency as follows:

- a) Assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;
- b) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- c) Components of equity are translated at the historic rate; and
- d) All resulting exchange differences are recognized in other comprehensive income.

When control over a foreign operation is lost, the previously recognized exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal.

The exchange rates at the year-end used by the Company in the preparation of the financial statements are as follows:

	31 December 2024	31 December 2023
AZN 1/USD	0.5882	0.5882
EUR 1/AZN	1.7724	1.8766
AZN 1/USD (average rate for the year)	0.5882	0.5882

#### Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditures connected with specific assets incurred during implementation period are carried under this head. These are transferred to specific assets as and when assets become available for use.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)**  
*(In thousands of US dollars, unless otherwise indicated)*

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**3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY UNDER GOING CONCERN BASIS**

The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered material to the portrayal of the Company's financial condition.

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

**Measurement of ECL allowance**

Measurement of ECLs is a material estimate that involves the determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 22. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default (“PD”), exposure at default (“EAD”), and loss given default (“LGD”), as well as models of macro-economic scenarios.

The Company regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. For details of ECL measurement including the incorporation of forward-looking information refers to Note 23.

**Significant increase in credit risk (“SICR”)**

In order to determine whether there has been a significant increase in credit risk, the Company compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers a relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Company considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioral aspects of particular customer portfolios. The Company identifies behavioral indicators of increases in credit risk prior to delinquency and incorporated appropriate forward-looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 23.

**Modification and de-recognition of financial assets**

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Company renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. Loan terms are modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms. When a financial asset is modified, the Company assesses whether this modification results in de-recognition. In accordance with the Company's policy a modification results in de-recognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Company considers the following:

- Quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original EIR. If the difference in present value is greater than 10% the Company deems the arrangement is substantially different leading to de-recognition.

If the terms are substantially different, the Company derecognizes the original financial asset and recognizes a ‘new’ asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

## **“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)** *(In thousands of US dollars, unless otherwise indicated)*

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If the terms are not substantially different, the renegotiation or modification does not result in de-recognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

The Company derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset.

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

IFRS 16 requires to make judgements of right-of-use assets and lease liabilities. In determining the lease term, the Company 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.

#### **Recoverability of deferred income tax assets**

The management of the Company created a valuation allowance against deferred income tax asset in the amount of USD 185 thousand and USD 356 thousand as at 31 December 2024 and 2023. The carrying value of deferred income tax assets amounted to USD 333 thousand and USD 271 thousand as at 31 December 2024 and 2023 respectively.

The management of the Company is confident that the carrying amount of deferred income tax asset will be fully realized in the future.

#### **Valuation of forward contract**

The management exercises judgement in valuation of derivative financial instruments. As disclosed in Note 14, the Company entered into a foreign exchange derivative contract for the notional amount of USD 4,500 thousand and USD 7,500 thousand as at 31 December 2024 and 2023. The management estimation is that, the fair value of the derivative financial instrument amounted to USD 59 thousand and USD 297 thousand as at 31 December 2024 and 2023.

## “FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued) (In thousands of US dollars, unless otherwise indicated)

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#### 4. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Company 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 31 December 2024.

The following standards, amendments and interpretations are effective for the year ended 31 December 2024. These standards, amendments and interpretations are either not relevant to the Company's operations or did not have material impact on the financial statements other than certain additional disclosures.

- Amendments to IFRS 7 'Financial Instruments: Disclosures' - Supplier finance arrangements
- Amendments to IFRS 16 'Leases' - Amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions
- Amendments to IAS 1 'Presentation of Financial Statements' - Classification of liabilities as current or non-current
- Amendments to IAS 1 'Presentation of Financial Statements' - Non-current liabilities with covenants
- Amendments to IAS 7 'Statement of Cash Flows' - Supplier finance arrangements

The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclose 'significant accounting policies' with 'material accounting policy information'. The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure.

#### 5. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

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

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, amendments and interpretations are either not relevant to the Company's operations or are not expected to have material impact on the Company's financial statements other than certain additional disclosures.

The following amendments are effective for the period beginning 1 January 2025:

- Amendments to IAS 21 'The Effects of Changes in Foreign Exchange Rates' - Lack of Exchangeability

The following amendments are effective for the period beginning 1 January 2026:

- Amendments to IFRS 7 'Financial Instruments: Disclosures' - Amendments regarding the classification and measurement of financial instruments)
- Amendments to IFRS 9 'Financial Instruments' - Amendments regarding the classification and measurement of financial instruments
- Amendments to IFRS 7 'Financial Instruments: Disclosures' - Amendments regarding nature-dependent electricity contracts that are often structured as power purchase agreements (PPAs)
- Amendments to IFRS 9 'Financial Instruments' - Amendments regarding nature-dependent electricity contracts that are often structured as power purchase agreements (PPAs)

Management does not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Company in future periods.

IFRS 18 'Presentation and Disclosures in Financial Statements' has been issued by IASB effective from January 01, 2027.

IFRS 19 'Subsidiaries without Public Accountability: Disclosures' has been issued by IASB effective from January 01, 2027.

**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

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*(In thousands of US dollars, unless otherwise indicated)*

**6. CASH AND CASH EQUIVALENTS**

	31 December 2024	31 December 2023
Current accounts with resident banks	4,454	1,202
Cash in transit	550	401
<b>Total cash and cash equivalents</b>	<b>5,004</b>	<b>1,603</b>

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount; therefore, the Company did not recognize any credit loss allowance for cash and cash equivalents.

**7. LOANS TO CUSTOMERS**

	31 December 2024	31 December 2023
Agriculture loans	20,539	19,852
Service loans	11,378	10,114
Trade loans	4,171	4,121
Consumption loans	2,686	-
Other loans	1,014	1,148
<b>Gross loans to customers</b>	<b>39,788</b>	<b>35,235</b>
Less: allowance for expected credit losses	(2,188)	(1,976)
<b>Total loans to customers, net</b>	<b>37,600</b>	<b>33,259</b>

As at 31 December 2024 and 2023, all loans are granted to customers operating in the Republic of Azerbaijan, which represents a significant geographical concentration in one region.

Interest received by the Company during the year ended 31 December 2024 amounted to USD 11,571 thousand.

Interest received by the Company during the year ended 31 December 2023 amounted to USD 10,122 thousand.

For the purpose of expected credit loss, the Company groups its loans into small and large customers.

**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

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The following tables disclose the movements in the gross carrying amounts of loans to customers between the beginning and the end of the reporting years:

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired (POCI)	Total
<i>Large loans to customers</i>					
<b>As at 1 January 2024</b>	<b>24,851</b>	<b>1,480</b>	<b>1,721</b>	<b>10</b>	<b>28,062</b>
Transfer from Stage 1 to Stage 2	(7,744)	7,744	-	-	-
Transfer from Stage 2 to Stage 1	4,014	(4,014)	-	-	-
Transfer from Stage 2 to Stage 3	-	(2,251)	2,251	-	-
Transfer from Stage 3 to Stage 2	-	20	(20)	-	-
New financial instruments originated or purchased	34,227	145	22	-	34,394
Other movements	(27,522)	(1,208)	(2,154)	(195)	(31,079)
Recoveries of loans previously written-off	-	-	1,629	185	1,814
Write-offs	-	-	(1,247)	-	(1,247)
<b>As at 31 December 2024</b>	<b>27,826</b>	<b>1,916</b>	<b>2,202</b>	<b>-</b>	<b>31,944</b>

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired (POCI)	Total
<i>Small loans to customers</i>					
<b>As at 1 January 2024</b>	<b>6,316</b>	<b>410</b>	<b>447</b>	<b>-</b>	<b>7,173</b>
Transfer from Stage 1 to Stage 2	(1,825)	1,825	-	-	-
Transfer from Stage 2 to Stage 1	953	(953)	-	-	-
Transfer from Stage 2 to Stage 3	-	(595)	595	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
New financial instruments originated or purchased	11,663	59	5	-	11,727
Other movements	(9,352)	(410)	(1,274)	(184)	(11,220)
Recoveries of loans previously written-off	-	-	459	184	643
Write-offs	-	-	(479)	-	(479)
<b>As at 31 December 2024</b>	<b>7,755</b>	<b>336</b>	<b>(247)</b>	<b>-</b>	<b>7,844</b>

**"FINCA AZERBAIJAN" LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

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	Stage 1	Stage 2	Stage 3	Purchased or originated credit- impaired (POCI)	Total
<i>Large loans to customers</i>					
<b>As at 1 January 2023</b>	<b>19,076</b>	<b>909</b>	<b>1,029</b>	<b>52</b>	<b>21,066</b>
Transfer from Stage 1 to Stage 2	(7,955)	7,955	-	-	-
Transfer from Stage 2 to Stage 1	4,672	(4,672)	-	-	-
Transfer from Stage 2 to Stage 3	-	(1,753)	1,753	-	-
Transfer from Stage 3 to Stage 2	-	7	(7)	-	-
New financial instruments originated or purchased	33,174	227	2	12	33,415
Other movements	(24,116)	(1,193)	(1,705)	(365)	(27,379)
Recoveries of loans previously written-off	-	-	1,437	311	1,748
Write-offs	-	-	(788)	-	(788)
<b>As at 31 December 2023</b>	<b>24,851</b>	<b>1,480</b>	<b>1,721</b>	<b>10</b>	<b>28,062</b>

	Stage 1	Stage 2	Stage 3	Purchased or originated credit- impaired (POCI)	Total
<i>Small loans to customers</i>					
<b>As at 1 January 2023</b>	<b>6,183</b>	<b>268</b>	<b>259</b>	<b>2</b>	<b>6,712</b>
Transfer from Stage 1 to Stage 2	(2,001)	2,001	-	-	-
Transfer from Stage 2 to Stage 1	980	(980)	-	-	-
Transfer from Stage 2 to Stage 3	-	(583)	583	-	-
Transfer from Stage 3 to Stage 2	-	2	(2)	-	-
New financial instruments originated or purchased	11,201	78	1	-	11,280
Other movements	(10,047)	(376)	(1,161)	(315)	(11,899)
Recoveries of loans previously written-off	-	-	1,061	313	1,374
Write-offs	-	-	(294)	-	(294)
<b>As at 31 December 2023</b>	<b>6,316</b>	<b>410</b>	<b>447</b>	<b>-</b>	<b>7,173</b>

**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)**  
*(In thousands of US dollars, unless otherwise indicated)*

The following tables disclose the movements in the credit loss allowance amounts of loans to customers between the beginning and the end of the reporting periods:

	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL- impaired )	Total
<i>Large loans to customers</i>				
<b>As at 1 January 2024</b>	<b>533</b>	<b>157</b>	<b>862</b>	<b>1,552</b>
Transfer from Stage 1 to Stage 2	(283)	852	-	569
Transfer from Stage 2 to Stage 1	76	(470)	-	(394)
Transfer from Stage 2 to Stage 3	-	(392)	663	271
Transfer from Stage 3 to Stage 2	-	1	(13)	(12)
New financial instruments originated or purchased	1,027	15	12	1,054
Other movements	(984)	142	(1,178)	(2,020)
Recoveries of loans previously written-off	-	-	1,814	1,814
Unwinding of discount (recognized in interest income)	-	-	207	207
Write-offs	-	-	(1,247)	(1,247)
<b>As at 31 December 2024</b>	<b>369</b>	<b>305</b>	<b>1,120</b>	<b>1,794</b>
<i>Small loans to customers</i>				
<b>As at 1 January 2024</b>	<b>154</b>	<b>37</b>	<b>233</b>	<b>424</b>
Transfer from Stage 1 to Stage 2	(73)	228	-	155
Transfer from Stage 2 to Stage 1	30	(144)	-	(114)
Transfer from Stage 2 to Stage 3	-	(108)	97	(11)
Transfer from Stage 3 to Stage 2	-	-	(1)	(1)
New financial instruments originated or purchased	449	4	3	456
Other movements	(443)	36	(313)	(720)
Recoveries of loans previously written-off	-	-	643	643
Unwinding of discount (recognized in interest income)	-	-	41	41
Write-offs	-	-	(479)	(479)
<b>As at 31 December 2024</b>	<b>117</b>	<b>55</b>	<b>224</b>	<b>394</b>

“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION

NOTES TO THE FINANCIAL STATEMENTS  
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(In thousands of US dollars, unless otherwise indicated)

	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL- impaired )	Total
<i>Large loans to customers</i>				
<b>As at 1 January 2023</b>	<b>358</b>	<b>79</b>	<b>700</b>	<b>1,137</b>
Transfer from Stage 1 to Stage 2	(157)	557	-	400
Transfer from Stage 2 to Stage 1	99	(407)	-	(308)
Transfer from Stage 2 to Stage 3	-	(269)	881	612
Transfer from Stage 3 to Stage 2	-	-	(4)	(4)
New financial instrument originated or purchased	862	33	1	896
Other movements	(629)	164	(1,450)	(1,915)
Recoveries of loans previously written-off	-	-	1,437	1,437
Unwinding of discount (recognized in interest income)	-	-	85	85
Write-offs	-	-	(788)	(788)
<b>As at 31 December 2023</b>	<b>533</b>	<b>157</b>	<b>862</b>	<b>1,552</b>
<i>Small loans to customers</i>				
<b>As at 1 January 2023</b>	<b>192</b>	<b>24</b>	<b>28</b>	<b>244</b>
Transfer from Stage 1 to Stage 2	(100)	217	-	117
Transfer from Stage 2 to Stage 1	39	(138)	-	(99)
Transfer from Stage 2 to Stage 3	-	(116)	293	177
Transfer from Stage 3 to Stage 2	-	-	(1)	(1)
New financial instrument originated or purchased	687	8	1	696
Other movements	(664)	42	(880)	(1,502)
Recoveries of loans previously written-off	-	-	1,061	1,061
Unwinding of discount (recognized in interest income)	-	-	25	25
Write-offs	-	-	(294)	(294)
<b>As at 31 December 2023</b>	<b>154</b>	<b>37</b>	<b>233</b>	<b>424</b>

The tables below show the credit quality analysis of the Company's loans to customers as at 31 December 2024 and 2023. Explanation of the terms 12-month ECL and lifetime ECL is disclosed in Note 23.

Credit quality in the table below is based on the scale developed internally by the Company. The scale is described in Note 23.

“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION

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	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL- impaired)	Purchased or originated credit- impaired (POCI)	Total
<i>Large loans to customers</i>					
Current	27,823	69	7	-	27,899
Past due 1-30 days	3	1,291	3	-	1,297
Past due 31-60 days	-	330	4	-	334
Past due 61-90 days	-	226	3	-	229
Past due more than 90 days	-	-	2,185	-	2,185
<b>Total gross loans to customers</b>	<b>27,826</b>	<b>1,916</b>	<b>2,202</b>	<b>-</b>	<b>31,944</b>
Less: allowance for expected credit losses	(369)	(305)	(1,120)	-	(1,794)
<b>Total net loans to customers as at 31 December 2024</b>	<b>27,457</b>	<b>1,611</b>	<b>1,082</b>	<b>-</b>	<b>30,150</b>

	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL- impaired)	Purchased or originated credit- impaired (POCI)	Total
<i>Small loans to customers</i>					
Current	7,642	15	(715)	-	6,942
Past due 1-30 days	113	184	-	-	297
Past due 31-60 days	-	72	1	-	73
Past due 61-90 days	-	65	2	-	67
Past due more than 90 days	-	-	465	-	465
<b>Total gross loans to customers</b>	<b>7,755</b>	<b>336</b>	<b>(247)</b>	<b>-</b>	<b>7,844</b>
Less: allowance for expected credit losses	(117)	(55)	(222)	-	(394)
<b>Total net loans to customers as at 31 December 2024</b>	<b>7,638</b>	<b>281</b>	<b>(469)</b>	<b>-</b>	<b>7,450</b>

“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION

NOTES TO THE FINANCIAL STATEMENTS  
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(In thousands of US dollars, unless otherwise indicated)

	Stage 1 (12- mont hs ECL)	Stage 2 (lifeti me ECL)	Stage 3 (lifeti me ECL- impai red)	Purc ha sed or origina ted credit- impair ed (POCI)	Total
<i>Large loans to customers</i>					
Current	24,643	101	14	-	24,758
Past due 1-30 days	208	935	3	-	1,146
Past due 31-60 days	-	212	4	-	216
Past due 61-90 days	-	232	8	-	240
Past due more than 90 days	-	-	1,692	10	1,702
<b>Total gross loans to customers</b>	<b>24,851</b>	<b>1,480</b>	<b>1,721</b>	<b>10</b>	<b>28,062</b>
Less: allowance for expected credit losses	(533)	(157)	(862)	-	(1,552)
<b>Total net loans to customers as at 31 December 2023</b>	<b>24,318</b>	<b>1,323</b>	<b>859</b>	<b>10</b>	<b>26,510</b>

	Stage 1 (12- mont hs ECL)	Stage 2 (lifeti me ECL)	Stage 3 (lifeti me ECL- impai red)	Purc ha sed or origina ted credit- impair ed (POCI)	Total
<i>Small loans to customers</i>					
Current	6,294	98	-	-	6,392
Past due 1-30 days	22	196	1	-	219
Past due 31-60 days	-	62	-	-	62
Past due 61-90 days	-	54	-	-	54
Past due more than 90 days	-	-	446	-	446
<b>Total gross loans to customers</b>	<b>6,316</b>	<b>410</b>	<b>447</b>	<b>-</b>	<b>7,173</b>
Less: allowance for expected credit losses	(154)	(37)	(233)	-	(424)
<b>Total net loans to customers as at 31 December 2023</b>	<b>6,162</b>	<b>373</b>	<b>214</b>	<b>-</b>	<b>6,749</b>

**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

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**Collateralization of loans.** The table below summarizes the carrying value of loans to customers analyzed by the type of collateral obtained by the Company:

	<b>31 December 2024</b>	<b>31 December 2023</b>
Unsecured loans	21,107	15,681
Loans collateralized by guarantee	18,681	19,554
Loans collateralized by pledge of inventories	-	-
Loans collateralized by pledge of real estate	-	-
Loans collateralized by pledge of motor vehicles	-	-
	<u>39,788</u>	<u>35,235</u>
<b>Gross loans to customers</b>	<b>39,788</b>	<b>35,235</b>
Less: Allowance for expected credit loss	(2,188)	(1,976)
	<u>37,600</u>	<u>33,259</u>
<b>Total loans to customers, net</b>	<b>37,600</b>	<b>33,259</b>

**ECL Breakdown by loan type:** The table below summarizes the breakdown of ECL by loan type:

	<b>31 December 2024</b>	<b>31 December 2023</b>
Agriculture loans	1,139	1,033
Service loans	647	585
Trade loans	204	285
Consumption loans	154	18
Other loans	44	55
	<u>2,188</u>	<u>1,976</u>
<b>Total expected credit loss</b>	<b>2,188</b>	<b>1,976</b>

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

	Furniture and office equipment	Computer equipment	Other assets	Total property and equipment	Intangible assets	Total property, equipment and intangible assets
<b>At initial cost</b>						
<b>1 January 2023</b>	252	727	135	1,114	2,206	3,320
Additions	19	137	38	194	1	195
Disposals	-	(9)	-	(9)	-	(9)
<b>31 December 2023</b>	271	855	173	1,299	2,207	3,506
Additions*	14	22	32	68	335	403
Disposals	-	(2)	-	(2)	(2)	(4)
<b>31 December 2024</b>	285	875	205	1,365	2,540	3,905
<b>Accumulated depreciation</b>						
<b>1 January 2023</b>	232	480	88	800	2,184	2,984
Depreciation charge	11	127	18	156	15	171
Eliminated on disposals	-	(8)	-	(8)	-	(8)
<b>31 December 2023</b>	243	599	106	948	2,199	3,147
Depreciation charge	9	145	34	188	9	197
Eliminated on disposals	-	(2)	-	(2)	(2)	(4)
<b>31 December 2024</b>	252	742	140	1,134	2,206	3,340
<b>Net book value</b>						
<b>As at 31 December 2024</b>	33	133	65	231	334	565
<b>As at 31 December 2023</b>	28	256	67	351	8	359

**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

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**\*Capital work-in progress (intangible assets):** This includes implementation of accounting software which is stated at cost. All expenditures connected with this asset incurred during implementation period are carried under this head. This will be transferred to specific assets as and when assets become available for use. No amortisation has been recorded on capital work-in progress.

As at 31 December 2024 and 2023 included in property, equipment and intangible assets were fully depreciated assets:

	<b>31 December 2024</b>	<b>31 December 2023</b>
Furniture and office equipment	58	51
Computer equipment	593	382
Other asset	216	250
Intangible asset	2,201	2,200
	<b>3,068</b>	<b>2,883</b>

**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

**NOTES TO THE FINANCIAL STATEMENTS  
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**9. RIGHT-OF-USE ASSETS**

	Office buildings	Total right-of-use assets
<b>At initial cost</b>		
<b>1 January 2023</b>	<u>1,727</u>	<u>1,727</u>
Modification	74	74
Additions	<u>25</u>	<u>25</u>
<b>31 December 2023</b>	<u>1,826</u>	<u>1,826</u>
Modification	418	418
Additions	<u>71</u>	<u>71</u>
<b>31 December 2024</b>	<u>2,315</u>	<u>2,315</u>
<b>Accumulated depreciation</b>		
<b>1 January 2023</b>	<u>918</u>	<u>918</u>
Depreciation charge	<u>380</u>	<u>380</u>
<b>31 December 2023</b>	<u>1,298</u>	<u>1,298</u>
Depreciation charge	<u>417</u>	<u>417</u>
<b>31 December 2024</b>	<u>1,715</u>	<u>1,715</u>
<b>Net book value</b>		
<b>31 December 2024</b>	<u>600</u>	<u>600</u>
<b>31 December 2023</b>	<u>528</u>	<u>528</u>

These rental agreements mainly pertains to the branches that are operated throughout Azerbaijan.

**10. OTHER ASSETS**

Other assets comprise:

	31 December 2024	31 December 2023
<b>Other financial assets:</b>		
Settlement receivables*	<u>221</u>	<u>214</u>
<b>Total other financial assets</b>	<u>221</u>	<u>214</u>
<b>Other non-financial assets:</b>		
Prepayments for services	179	166
Repossessed collaterals**	27	37
Advances to employees	72	2
Others	<u>16</u>	<u>9</u>
<b>Total other non-financial assets</b>	<u>294</u>	<u>214</u>
<b>Total other assets</b>	<u>515</u>	<u>428</u>

**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)**  
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\*This includes 135K USD Receivable from related party named Finca Microfinance Holding (FMH). This pertains to the collateral amount that Company had paid to MFX Currency Risk Solutions for currency forward agreement. This will be used and at the maturity of those agreements the collateral amount will be used.

\*\*As at 31 December 2024 and 2023, the fair value of repossessed collaterals approximates to USD 27 thousand and USD 37 thousand, respectively. During the year ended 31 December 2024 the Company recognized a loss on change of fair value of repossessed collaterals in the amount of USD 3 thousand (2023: USD 47 thousand).

	<b>31 December 2024</b>	<b>31 December 2023</b>
Residential property	27	37
<b>Total repossessed collaterals</b>	<b>27</b>	<b>37</b>

Management of the Company intends to sell these assets, however no active program to locate a buyer and complete plan have been initiated as at the date of report.

**11. BORROWED FUNDS**

	<b>31 December 2024</b>	<b>31 December 2023</b>
<b>Secured -</b>		
<i>Loans from banks:</i>		
Central Bank of the Republic of Azerbaijan	-	1,982
“Ziraat Bank Azerbaijan” OJSC	882	588
“AccessBank Azerbaijan” OJSC	1,765	-
	2,647	2,570
<i>Loans from other financial institutions:</i>		
EMF Microfinance Fund AGMVK	3,500	5,100
EFA Financial Institutions Debt Fund Pte. Ltd	1,300	3,225
HANSAINVEST Finance GmbH & Co	4,375	2,750
BlueOrchard Impact Credit S.A. SICAV-RAIF	5,750	2,500
FINCA Microfinance Holding Company LLC*	2,000	2,000
“Responsibility SICAV (Lux)”	5,000	-
“Triple Jump J.V.”	3,000	-
	24,925	15,575
<i>Loan from other:</i>		
Agrarian Credit and Development Agency under the Ministry of Agriculture of the Republic of Azerbaijan	90	182
	90	182
<b>Total secured borrowed funds</b>	<b>27,662</b>	<b>18,327</b>
Accrued profit on borrowed funds	578	337
Unwinding of loan originating fee	(201)	(210)
<b>Total borrowed funds</b>	<b>28,039</b>	<b>18,454</b>

\*This represents loan from related party.

The Company is obligated to comply with financial covenants in relation to the loan from EMF Microfinance Fund AGMVK, EFA Financial Institutions Debt Fund Pte. Ltd., BlueOrchard Impact Credit S.A. SICAV-RAIF, Triple Jump J.V., HANSAINVEST Finance GmbH & Co and FINCA Microfinance Holding Company LLC. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios including provisioning covenants. The Company did not have any significant incompliance issues with these covenants during the year ended 31 December 2024 which could cause early withdrawal of the funds except Triple Jump J.V. and HANSAINVEST Finance GmbH & Co. The Company was not in compliance with provisioning covenant.

Borrowings bear interest rates varying from 1% to 16% in local currency and from 7% to 9% in foreign currency.

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In estimating the discount rates for term borrowings from Agrarian Credit and Development Agency under the Ministry of Agriculture of the Republic of Azerbaijan, the Company considers this market as a separate market from other commercial borrowing business as these loans are issued to the whole banking sector of Azerbaijan at the same terms, purposes, conditions and credit risk exposures.

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

	<b>Amount</b>
<b>1 January 2023</b>	<b><u>13,123</u></b>
<b>Cash flows</b>	
Proceeds	9,983
Principal paid	(4,696)
Transaction costs paid	(337)
Interest paid	<u>(1,091)</u>
<b>Non-cash changes</b>	
Interest expense	<u>1,472</u>
<b>31 December 2023</b>	<b><u>18,454</u></b>
<b>Cash flows</b>	
Proceeds	17,265
Principal paid	(8,132)
Transaction costs paid	(71)
Interest paid	<u>(2,114)</u>
<b>Non-cash changes</b>	
Interest expense	<u>2,637</u>
<b>31 December 2024</b>	<b><u>28,039</u></b>

**12. DEBT SECURITIES ISSUED**

	<b>31 December 2024</b>	<b>31 December 2023</b>
Registered bonds in State Register for Securities	4,265	5,294
Accrued profit on securities	64	9
Unwinding of origination fee	(46)	(9)
	<u>4,283</u>	<u>5,294</u>
<b>Total debt securities issued</b>	<b><u>4,283</u></b>	<b><u>5,294</u></b>

Debt securities issued represent bonds for the total net amount of USD 4,283 thousand as at 31 December 2024 (31 December 2023: USD 5,294 thousand) listed in the Baku Stock Exchange for securities of the Republic of Azerbaijan with 30,000 securities with the face value of AZN 100 each with annual fixed coupon rate equal to 12.5% and 2,500 securities with the face value of USD 1,000 with annual fixed coupon rate equal to 9%.

The interest on bonds is paid quarterly. Bondholders have the right to demand repayment of principal at maturity. There are no restrictions regarding the sale and purchase of the bonds in the secondary markets.

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

	<b>Amount</b>
<b>1 January 2023</b>	<b><u>5,265</u></b>
<b>Cash flows</b>	
Proceeds	1,765
Principal paid	(1,765)
Transaction costs paid	(55)
Interest paid	<u>(801)</u>
<b>Non-cash changes</b>	
Interest expense	<u>885</u>
<b>31 December 2023</b>	<b><u>5,294</u></b>
<b>Cash flows</b>	
Proceeds	2,500
Principal paid	(3,529)
Transaction costs paid	(38)
Interest paid	<u>(442)</u>
<b>Non-cash changes</b>	
Interest expense	<u>498</u>
<b>31 December 2024</b>	<b><u>4,283</u></b>

**13. LEASE LIABILITIES**

	<b>31 December 2024</b>	<b>31 December 2023</b>
Current lease liabilities	342	323
Non-current lease liabilities	<u>292</u>	<u>217</u>
<b>Total lease liabilities</b>	<b><u>634</u></b>	<b><u>540</u></b>

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

	<b>Minimum lease payments due</b>		
	<b>Within one year</b>	<b>One to five years</b>	<b>Total</b>
Lease payments	366	317	683
Finance charges	<u>(24)</u>	<u>(25)</u>	<u>(49)</u>
<b>Net present value as at 31 December 2024</b>	<b><u>342</u></b>	<b><u>292</u></b>	<b><u>634</u></b>

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

	<b>Minimum lease payments due</b>		
	<b>Within one year</b>	<b>One to five years</b>	<b>Total</b>
Lease payments	352	254	606
Finance charges	(29)	(37)	(66)
<b>Net present value as at 31 December 2023</b>	<b>323</b>	<b>217</b>	<b>540</b>

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

	<b>Amount</b>
<b>1 January 2023</b>	<b>765</b>
<b>Cash flows</b>	
Repayment of principal	(324)
Interest paid	(55)
<b>Non-cash changes</b>	
Modifications	74
New leases	25
Interest expense	55
<b>31 December 2023</b>	<b>540</b>
<b>Cash flows</b>	
Repayment of principal	(357)
Interest paid	(84)
<b>Non-cash changes</b>	
Modifications	418
New leases	68
Interest expense	49
<b>31 December 2024</b>	<b>634</b>

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**14. OTHER LIABILITIES**

Other liabilities comprise:

	31 December 2024	31 December 2023
<b>Other financial liabilities:</b>		
Payable to employees	563	497
Derivative financial instrument*	59	297
Payables to customers	-	191
Professional service fee payable	101	76
Service fee payable to a related party	-	51
Others	37	69
<b>Total other financial liabilities</b>	<b>760</b>	<b>1,181</b>
<b>Other non-financial liabilities:</b>		
Taxes other than income tax payable	554	465
Others	15	5
<b>Total other non-financial liabilities</b>	<b>569</b>	<b>470</b>
<b>Total other liabilities</b>	<b>1,329</b>	<b>1,651</b>

\* The Company entered into derivative financial instruments as at 31 December 2024 and 31 December 2023. The table below shows the fair value of the derivative financial instrument, recorded as a liability, together with its notional amount. 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 derivative is measured. The notional amount indicates the volume of transactions outstanding at the year-end and is not indicative of the credit risk.

	31 December 2024			31 December 2023		
	Notional amount	USD		Notional amount	USD	
		Asset	Liability		Asset	Liability
<b>Foreign exchange contract</b>						
Forwards – foreign	4,500		(59)	7,500	-	(297)
<b>Total derivative liability</b>	<b>4,500</b>		<b>(59)</b>	<b>7,500</b>	<b>-</b>	<b>(297)</b>

Included in net result from foreign currency derivative in the amount of USD 407 thousand as at 31 December 2024 (31 December 2023: USD 249 thousand) represent net results from foreign currency non-deliverable forward contract.

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**15. SHARE CAPITAL**

As of 31 December 2024, and 2023 the share capital held is as follows:

<b>Shareholders</b>	<b>%</b>	<b>31 December 2024</b>	<b>%</b>	<b>31 December 2023</b>
FINCA Microfinance Cooperatief U.A.	100%	4,250	100%	4,250
<b>Nominal capital</b>	<b>100%</b>	<b>4,250</b>	<b>100%</b>	<b>4,250</b>

In 2024 and 2023 the Company has declared the dividends of amounting USD 1.722 million (2023: USD 1.345 million).

**16. NET INTEREST INCOME**

	<b>Year ended 31 December 2024</b>	<b>Year ended 31 December 2023</b>
<b>Interest income on financial assets recorded at amortized cost</b>		
- interest income from loans to customers	11,977	10,419
<b>Total interest income on financial assets recorded at amortized cost</b>	<b>11,977</b>	<b>10,419</b>
<b>Interest expense on financial liabilities recorded at amortized cost</b>		
- interest expense on borrowed funds	(2,496)	(1,472)
- interest expense on debt securities issued	(521)	(885)
- interest expense on lease liabilities	(49)	(55)
<b>Total interest expense on financial liabilities recorded at amortized cost</b>	<b>(3,066)</b>	<b>(2,412)</b>
<b>Net interest income</b>	<b>8,911</b>	<b>8,007</b>

**17. ADMINISTRATIVE AND OPERATING EXPENSES**

Administrative and operating expenses comprise the following items:

	<b>Year ended 31 December 2024</b>	<b>Year ended 31 December 2023</b>
Wages and salaries	(3,674)	(3,135)
Professional fees	(1,053)	(566)
Compulsory social security obligations	(670)	(565)
Depreciation and amortization	(611)	(579)
Allowances, incentives and other benefits	(547)	(636)
Consumables and office supply	(200)	(216)
Communication expenses	(239)	(155)
IT professional fees	(282)	(257)
Marketing expenses	(142)	(153)
Business trip expenses	(82)	(96)
Entertainment expenses	(71)	(78)
Bank charges	(72)	(51)
Taxes, other than income tax	(51)	(108)
Insurance	(8)	(31)
Others	(39)	(41)
<b>Total administrative and operating expenses</b>	<b>(7,741)</b>	<b>(6,667)</b>

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**18. INCOME TAXES**

The Company measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Azerbaijan where the Company operates, which may differ from IFRS.

The Company is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences as at 31 December 2024 and 2023 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases’ differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Republic of Azerbaijan on taxable profits (as defined) under tax law in that jurisdiction.

	<b>31 December 2024</b>	<b>31 December 2023</b>
Deferred income tax assets/(liabilities) in relation to:		
Loans to customers, net	516	996
Property and equipment and intangible assets	110	109
Lease liabilities	127	108
Other liabilities	218	69
Tax loss carried forward	-	-
Borrowed funds	17	(41)
Provision for tax losses	(62)	(88)
Other assets	(61)	(94)
Right-of-use assets	(120)	(106)
Not recognized deferred income tax asset	(412)	(682)
<b>Net deferred income tax asset</b>	<b>333</b>	<b>271</b>

When estimating the deductible difference for loans to customers the Company has analyzed the following circumstances:

- in accordance with tax legislation of the Republic of Azerbaijan expected credit losses for a loan to customer is a non-deductible expense;
- losses arising from sale of loan to customer is a deductible expense.

The effective tax rate reconciliation is as follows for the years ended 31 December 2024 and 2023:

	<b>Year ended 31 December 2024</b>	<b>Year ended 31 December 2023</b>
Profit before income tax	2,041	2,654
Tax at the statutory tax rate (20%)	(408)	(531)
Tax effect of changes in not recognized deferred income tax assets	245	164
Tax effect of permanent differences	(19)	(40)
Change in provision for tax losses	(3)	51
<b>Income tax expense</b>	<b>(185)</b>	<b>(356)</b>

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NOTES TO THE FINANCIAL STATEMENTS  
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	Year ended 31 December 2024	Year ended 31 December 2023
Current income tax expense	(160)	(460)
Deferred tax benefit/(expense) recognized in the current year	(25)	104
<b>Income tax expense</b>	<b>(185)</b>	<b>(356)</b>

	31 December 2024	31 December 2023
<b>As at year beginning – deferred income tax assets</b>	<b>271</b>	<b>167</b>
Change in deferred income tax asset balances	62	104
<b>As at year end – deferred income tax assets</b>	<b>333</b>	<b>271</b>

19. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Company that gives them significant influence over the Company; and that have joint control over the Company;
- (b) Associates – enterprises on which the Company has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Company is a venture;
- (d) Members of key management personnel of the Company or its parent;
- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) Post-employment benefit plans for the benefit of employees of the Company, or of any entity that is a related party of the Company.

The Company’s policy does not allow issuing loans to employees, board members, their family members and close relatives, and other persons involved in the management, control or supervision of the Company.

The Company had the following transactions outstanding as at 31 December 2024 and 2023 with related parties:

	31 December 2024		31 December 2023	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
<b>Other assets</b>				
- Parent	135	515	214	428
<b>Other liabilities</b>				
- Parent	-	1,329	51	1,651
<b>Borrowed funds</b>				
- Parent	2,000	28,039	2,008	18,454

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Included in the statement of comprehensive income for the years ended 31 December 2024 and 2023 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2024		Year ended 31 December 2023	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
<b>Key management personnel compensation</b>				
- <i>short-term employee benefits</i>	(690)	(4,891)	(576)	(4,322)

	Year ended 31 December 2024		Year ended 31 December 2023	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
<b>Administrative and other operating expenses (excluding staff-related costs)</b>				
- <i>the Parent</i>	(831)	(2,850)	(488)	(2,345)
(The transactions relate to Management service fee, Royalty fee, IT and other shared services and related VAT and WHT)				
<b>Interest expense</b>				
- <i>the Parent</i>	(183)	(3,066)	(36)	(2,412)
(The transaction relates to interest on borrowed fund)				

**20. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Company is a party to financial instruments with off-balance-sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Company's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The Company is received from customers and counterparties. Management is of the opinion that no material un-accrued losses will be incurred and accordingly no provision has been made in these financial statements.

**Taxation** – Laws and regulations affecting business in the Republic of Azerbaijan continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Company may be challenged by the relevant regional authorities. Recent events suggest that the tax authorities are

taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods.

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The taxation system in the Republic of Azerbaijan continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Azerbaijan Republic suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in Azerbaijan 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 Azerbaijan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

**21. FAIR VALUE OF FINANCIAL INSTRUMENT**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

**Fair value hierarchy**

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

As at 31 December 2024 and 2023 the Company had derivative financial instruments measured at fair value (Note 14).

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

	Date of valuation	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2024	5,004	-	-	5,004
Loans to customers, net	31 December 2024	-	-	37,600	37,600
Other financial assets	31 December 2024	-	-	221	221
<b>Liabilities for which fair values are disclosed</b>					
Borrowed funds	31 December 2024	-	-	28,039	28,039
Debt securities issued	31 December 2024	-	-	4,283	4,283
Lease liabilities	31 December 2024	-	-	634	634
Other financial liabilities	31 December 2024	-	-	701	701

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	Date of valuation	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2023	1,603	-	-	1,603
Loans to customers, net	31 December 2023	-	-	33,259	33,259
Other financial assets	31 December 2023	-	-	214	214
<b>Liabilities for which fair values are disclosed</b>					
Borrowed funds	31 December 2023	-	-	18,454	18,454
Debt securities issued	31 December 2023	-	-	5,294	5,294
Lease liabilities	31 December 2023	-	-	540	540
Other financial liabilities	31 December 2023	-	-	884	884

**Assets and liabilities for which fair value approximates carrying value**

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, without specific maturity and variable-rate financial instruments.

**Fixed and variable rate financial instruments**

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

**22. CAPITAL RISK MANAGEMENT**

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. According to the requirement of the Central Bank of the Republic of Azerbaijan, the Company has to meet the minimum regulatory total capital requirement of AZN 300 thousand.

Management’s focus in respect of the Company’s capital management has the following objectives: ensuring the Company’s ability to operate as a going concern and maintain balances in order to comply with covenants of lenders and investors. This is exercised daily in respect of the projected and actual data and on the basis of monthly reports with the corresponding calculations that are verified and signed by the management board and chief accountant of the Company.

**23. RISK MANAGEMENT POLICIES**

Management of risk is fundamental to the Company’s Companying business and is an essential element of the Company’s operations.

The main risks inherent to the Company’s operations are those related to:

- Credit exposures;
- Liquidity risk;
- Market risk.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued) *(in thousands of US dollars, unless otherwise indicated)*

The Company recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Company has established a risk management framework, whose main purpose is to protect the Company from risk and allow it to achieve its performance objectives.

**Structure of risk management.** The Management Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

**Management Board.** The Management Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

**Audit Committee.** On a quarterly basis, the Audit Committee examines reports related to risk issues presented by Internal Audit and follows measures undertaken by the management to resolve discovered issues. The Audit Committee is also involved in a discussion of findings discovered by external auditors.

**Other committees.** In order to provide additional measures in terms of risk management, permanent working committees are created within the Company:

- Asset and Liability Management Committee (“ALMC”) – the committee reviews every month the projected liquidity for the following 12 months. Liquidity forecasts are based on expected loan disbursement levels, expected funding plans and other expected cash movements. ALMC takes decisions related to new borrowings, sets open currency position and counterparty limits for operations with companies and financial institutions, monitors covenants with lenders, examines issues related to maturities of assets and liabilities, and gives recommendations to the Finance Department concerning the elimination of divergences.
- Credit Departments – the departments evaluate the quality of loans of the Company and prepares recommendations concerning allowances for impairment and provisions. Credit Department supervises the realization of methodology concerning credit risk management, takes measures towards credit risk minimization and makes decisions concerning operations bearing credit risk. This department places credit limits for branches, performs analysis and controls credit risk.

**Finance Department.** Finance department is responsible for the day-to-day management of assets and liabilities of the Company, computation and planning of liquidity position of the Company, and redistribution of cash and cash equivalents between operating sites of the Company. The Finance Department controls the application of limits and liquidity ratios set by ALMC and the implementation of decisions taken by ALMC in regard to liquidity risk optimisation.

**Internal Audit.** Internal Audit performs an independent review of the risk management process, informs management about the revealed shortcomings, and gives appropriate recommendations concerning the improvement of the risk management process.

**Risk measurement and reporting systems.** The choice of the risk management method depends on risk factors, which determine the relative importance or probability of the risks, which may adversely affect the financial position of the Company. The Company not only analyses and measures each risk separately, but also determines the level of cumulative risks. Thus, for each kind of risk, the following methods of risk measurement are applied:

- credit risk analysis of a credit portfolio and credit risk ratios;
- off-balance-sheet risk;
- interest-rate risk maturity and interest rate gap analysis of assets and liabilities;
- liquidity risk gap analysis of payments in local and foreign currencies; analysis of liquidity ratios, determination of liquidity reserve;
- currency risk gap analysis of payments in foreign currency; analysis of currency position;
- Operational risk for all operations having an impact on the Company’s financial position, systems assuring separation of activities (such as initiation, execution and control) necessary for the finalisation of operations have been implemented.

Risk measurement methods reflect expected loss, which the Company might incur when performing its activities. Every month, based on the analysis of the separate risks, the Finance Department prepares conclusions concerning the current state of the risks, and their main drivers.

In particular, at the monthly ALMC, the status of the interest rate, liquidity, currency, and other market risks are reported.

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The status of functional risks (operational – technological, legal, strategic, reputation risk) is also reported to Management Board each month. These reports are examined at the Management Board and Audit Committee meetings held each quarter.

**Risk mitigation.** The Company uses the following methods, *inter alia*, for risk minimisation:

- Reception of guarantees and collateral for credit risk mitigation;
- Diversification – selection of assets, which are not connected between each other.

**Credit risk**

**Credit risk measurement for loans to customers**

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. For risk management reporting purposes, the Company considers and consolidates loan size as an element of credit risk exposure. The Company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

**Expected credit loss measurement**

IFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in ‘Stage 1’ and has its credit risk continuously monitored by the Company;
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to ‘Stage 2’ but is not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, the financial instrument is then moved to ‘Stage 3’;
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis;
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information;
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

**Significant increase in credit risk**

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company 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 Company’s historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for exposure by comparing:

- The remaining lifetime 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 (adjusted where relevant for changes in prepayment expectations).

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

- Quantitative test based on movement in PD;
- Forbearance status; and
- A backstop of 30 days past due.

“Forbearance” occurs upon restructuring, i.e., prolongation in payment terms of payment of interest or principal arising from a deterioration of a borrower’s financial condition such that it is not the same as it was at the time of loan origination and a borrower has applied for a change in the payment schema of the loan. Restructuring only occurs when the appropriate division of the Company is reasonably confident that a borrower is able to service the renewed payment schedule.

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Multiple economic scenarios form the basis of determining the PD at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different PD. It is the weighting of these different scenarios that form the basis of a weighted average PD that is used to determine whether credit risk has significantly increased. Forward-looking information includes the future prospects of Azerbaijan’s economy obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information.

#### Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Company considers the following as constituting an event of default:

- The contract is past due more than 90 days; or
- The credit obligations reflected in the contract are unlikely to be paid to the Company in full.

The definition of default is appropriately tailored to reflect the different characteristics of different types of assets. When assessing if the borrower is unlikely to pay its credit obligation, the Company takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Company uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

The following diagram summarizes the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Credit-impaired assets in Stage 3 undergo a probationary period of 6 months after the material credit obligations of the Contract are met before moving to Stage 2.

#### Write-off

When periodic collective historical recovery analysis indicates that the Company does not expect significant additional recoveries after certain months in default (“MID”), it is the policy of the Company to write-off loans on a collective basis.

Amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is USD 1,495 thousand.

#### Grouping with similar credit risk characteristics

Financial assets are split into two segments for the purposes of PD calculation:

- Small (for loan amounts up to USD 2,000);
- Large (for loan amounts greater than USD 2,001).

The segments above reflect the level of assessment of client creditworthiness, with the large segment exhibiting a comparatively stricter assessment. The historical default rate is utilized as an indicator of strictness, such that the difference in default rates is maximized between the segments.

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#### Rating model

All available information (product groups, industries, etc.) are used to derive internal ratings for each segment. In such a way groups with the same risk characteristics are created and used afterwards to adjust the PD curve of the segment.

#### Significant increase in credit risk

The Company considers a financial instrument to have experienced a significant increase in credit risk when the remaining Lifetime PD at the reporting date has increased by 20%, compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognized.

#### 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).

These parameters are generally derived from internally developed statistical models and other historical data.

#### Probability of default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD) or over the remaining lifetime (Lifetime PD) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Probability of Default is modeled by the survival function, which is based on hazard rates.

Hazard rates are obtained by the Cox proportional-hazards model, which is a semi-parametric model, it uses an assumed simple form for the effect of covariates and the exact value of free parameters is estimated with partial likelihood. The baseline is obtained by non-parametrical methods. A macroeconomic overlay can be directly included into the hazard function through a time-dependent variable. From obtained hazard rates, then Point-in-Time (“PiT”) PD is derived, i.e., marginal PDs assigned to a respective date.

Observation period for modeling Cox hazard rates is 5 years.

#### Loss given default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model considers cash recoveries only. LGD is calculated on a discounted cash flow basis using the EIR as the discounting factor.

Secured loans utilize collateral values, whereas unsecured and guaranteed loans use recovery rates.

#### Exposure at default (EAD)

EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

#### Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Company has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data, has assessed the impact of macroeconomic variables on PD and recovery rate. The macroeconomic variable which was involved in the analysis is a real growth rate of GDP.

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**Maximum exposure of credit risk.** The Company’s maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to the credit risk of balance sheet and off-balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Company’s maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

Maximum exposure of credit risk table is as below:

	Maximum exposure	Collateral pledged	Net exposure
<b>31 December 2024</b>			
Cash at banks	5,004	-	5,004
Loans to customers, net	37,600	-	37,600
Other financial assets	221	-	221
	<u>221</u>	<u>-</u>	<u>221</u>
<b>31 December 2023</b>			
Cash at banks	1,603	-	1,603
Loans to customers, net	33,259	-	33,259
Other financial assets	214	-	214
	<u>214</u>	<u>-</u>	<u>214</u>

**Analysis of collateral and other credit enhancements**

The Company closely monitors collateral held for financial assets considered to be credit-impaired excluding POCI loans, as it becomes more likely that the Company will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross carrying amount	Loss allowance	Amortized cost	Fair value of collateral
<b>31 December 2024</b>				
Loan portfolio in default (Stage 3)				
Large loans	2,202	(1,120)	1,082	-
Small loans	(247)	(224)	(471)	-
	<u>1,955</u>	<u>(1,344)</u>	<u>611</u>	<u>-</u>
<b>Total</b>	<u>1,955</u>	<u>(1,344)</u>	<u>611</u>	<u>-</u>
<b>31 December 2023</b>				
Loan portfolio in default (Stage 3)				
Large loans	1,721	(862)	859	-
Small loans	447	(233)	214	-
	<u>2,168</u>	<u>(1,095)</u>	<u>1,073</u>	<u>-</u>
<b>Total</b>	<u>2,168</u>	<u>(1,095)</u>	<u>1,073</u>	<u>-</u>

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The following table shows the distribution of LTV ratios for the Company’s credit-impaired portfolio of small loans:

Loan to Value (LTV) ratio	2024			
	Total loan portfolio		Credit impaired loan portfolio (Stage 3)	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
No Collateral	7,844	(394)	(247)	(224)
<b>Total</b>	<b>7,844</b>	<b>(394)</b>	<b>(247)</b>	<b>(224)</b>

  

Loan to Value (LTV) ratio	2023			
	Total loan portfolio		Credit impaired loan portfolio (Stage 3)	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
No Collateral	7,173	(424)	447	(233)
<b>Total</b>	<b>7,173</b>	<b>(424)</b>	<b>447</b>	<b>(233)</b>

The following table shows the distribution of LTV ratios for the Company’s credit-impaired portfolio of large loans:

Loan to Value (LTV) ratio	2024			
	Total loan portfolio		Credit impaired loan portfolio (Stage 3)	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
No Collateral	31,944	(1,794)	2,202	(1,120)
<b>Total</b>	<b>31,944</b>	<b>(1,794)</b>	<b>2,202</b>	<b>(1,120)</b>

  

Loan to Value (LTV) ratio	2023			
	Total loan portfolio		Credit impaired loan portfolio (Stage 3)	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
No Collateral	28,062	(1,552)	1,721	(862)
<b>Total</b>	<b>28,062</b>	<b>(1,552)</b>	<b>1,721</b>	<b>(862)</b>

**Off-balance sheet risk.** The Company applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance-sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

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**Geographical concentration.** The geographical concentration of the Company’s financial assets and liabilities as at 31 December 2024 is set out below:

	<b>The Republic of Azerbaijan</b>	<b>OECD countries</b>	<b>Non-OECD countries</b>	<b>Total</b>
Cash and cash equivalents	5,004	-	-	5,004
Loans to customers, net	37,600	-	-	37,600
Other financial assets	-	221	-	221
<b>Total financial assets</b>	<b>42,604</b>	<b>221</b>	<b>-</b>	<b>42,825</b>
Borrowed funds	2,752	12,350	12,937	28,039
Debt securities issued	4,283	-	-	4,283
Lease liabilities	634	-	-	634
Other financial liabilities	760	-	-	760
<b>Total financial liabilities</b>	<b>8,429</b>	<b>12,350</b>	<b>12,937</b>	<b>33,716</b>
<b>Net position</b>	<b>34,175</b>	<b>(12,129)</b>	<b>(12,937)</b>	<b>9,109</b>

The geographical concentration of the Company’s financial assets and liabilities as at 31 December 2023 is set out below:

	<b>The Republic of Azerbaijan</b>	<b>OECD countries</b>	<b>Non-OECD countries</b>	<b>Total</b>
Cash and cash equivalents	1,603	-	-	1,603
Loans to customers, net	33,259	-	-	33,259
Other financial assets	-	214	-	214
<b>Total financial assets</b>	<b>34,862</b>	<b>214</b>	<b>-</b>	<b>35,076</b>
Borrowed funds	2,636	7,350	8,468	18,454
Debt securities issued	5,294	-	-	5,294
Lease liabilities	540	-	-	540
Other financial liabilities	833	348	-	1,181
<b>Total financial liabilities</b>	<b>9,303</b>	<b>7,698</b>	<b>8,468</b>	<b>25,469</b>
<b>Net position</b>	<b>25,559</b>	<b>(7,484)</b>	<b>(8,468)</b>	<b>9,607</b>

**Market risk.** Market risk is the risk that the Company’s earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices.

Market risk covers interest rate risk, currency risk, credit spreads, commodity prices and equity prices that the Company is exposed to. There have been no changes as to the way the Company measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

The Company is exposed to interest rate risks as entities in the Company borrow funds at both fixed and floating rates. The risk is managed by the Company maintaining an appropriate mix between fixed and floating rate borrowings.

The ALMC also manages interest rate and market risks by matching the Company’s interest rate position, which provides the Company with a positive interest margin. The Finance Department conducts monitoring of the Company’s current financial performance, estimates the Company’s sensitivity to changes in interest rates and its influence on the Company’s profitability.

Some of the Company’s financial liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Company monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

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**Currency risk.** Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of USD fluctuation and other macroeconomic indicators, which gives the Company an opportunity to minimize losses from significant currency rates fluctuations toward its national currency.

The Company is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

As at 31 December 2024, the Company's exposure to foreign currency exchange rate risk is as follows:

	<b>AZN</b>	<b>USD</b>	<b>EUR</b>	<b>Total</b>
Cash and cash equivalents	1,421	3,582	1	5,004
Loans to customers, net	37,600	-		37,600
Other financial assets	-	221		221
<b>Total financial assets</b>	<b>39,021</b>	<b>3,803</b>	<b>1</b>	<b>42,825</b>
Borrowed funds	23,364	4,675	-	28,039
Debt securities issued	1,783	2,500	-	4,283
Lease liabilities	634	-	-	634
Other financial liabilities	701	59	-	760
<b>Total financial liabilities</b>	<b>26,482</b>	<b>7,234</b>	<b>-</b>	<b>33,716</b>
Derivative financial instrument	(4,500)	4,500	-	-
<b>OPEN POSITION</b>	<b>8,039</b>	<b>1,069</b>	<b>1</b>	<b>9,109</b>

As at 31 December 2023, the Company's exposure to foreign currency exchange rate risk is as follows:

	<b>AZN</b>	<b>USD</b>	<b>EUR</b>	<b>Total</b>
Cash and cash equivalents	667	928	8	1,603
Loans to customers, net	33,259	-	-	33,259
Other financial assets		214		214
<b>Total financial assets</b>	<b>33,926</b>	<b>1,142</b>	<b>8</b>	<b>35,076</b>
Borrowed funds	8,869	9,585	-	18,454
Debt securities issued	5,294	-	-	5,294
Lease liabilities	540	-	-	540
Other financial liabilities	833	348	-	1,181
<b>Total financial liabilities</b>	<b>15,536</b>	<b>9,933</b>	<b>-</b>	<b>25,469</b>
Derivative financial instrument	(7,500)	7,500	-	-
<b>OPEN POSITION</b>	<b>10,890</b>	<b>(1,291)</b>	<b>8</b>	<b>9,607</b>

The following table details the Company's sensitivity to a 10% increase and decrease in the AZN against the relevant foreign currencies as at 31 December 2024 and 2023, respectively. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

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	2024	
	Effect on profit before taxation	Effect on equity
USD appreciation by 10%	(143)	(113)
USD depreciation by 10%	143	113
	2023	
	Effect on profit before taxation	Effect on equity
USD appreciation by 10%	(129)	(103)
USD depreciation by 10%	129	103

**Interest rate risk.** Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Company’s interest rate policy is reviewed periodically by the Management Board in order to place and attract funds based on market conditions. Interest rate risk is managed principally through monitoring interest rate gaps.

The Company manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Finance Department conducts monitoring of the Company’s current financial performance, estimates the Company’s sensitivity to changes in fair value interest rates and its influence on the Company’s profitability.

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. A 50 (0.5%) basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates.

If interest rates had been 50 (0.5%) basis points higher/lower and all other variables were held constant, the Company’s:

	2024		2023	
	Effect on profit before income tax	Effect on equity	Effect on profit before income tax	Effect on Equity
Interest rate increase on 0.5%	54	45	45	36
Interest rate decrease on 0.5%	(54)	(45)	(45)	(36)

**Limitations of sensitivity analysis.** The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate the potential risk that only represents the Company’s view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

**Liquidity risk.** Liquidity risk refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Company performs daily monitoring of existing cash balances and monthly analysis of future expected cash flows on clients and other financial operations, which is a part of the assets/liabilities management process.

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The table below shows the expected maturity analysis as at 31 December 2024:

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	31 December 2024 Total
<b>FINANCIAL ASSETS</b>						
Interest rate instruments						
Loans to customers, net	3,294	4,421	6,241	10,991	12,653	37,600
<b>Total fixed interest-bearing financial assets</b>	<b>3,294</b>	<b>4,421</b>	<b>6,241</b>	<b>10,991</b>	<b>12,653</b>	<b>37,600</b>
Non-interest-bearing financial assets						
Cash and cash equivalents	5,004	-	-	-	-	5,004
Other financial assets	-	-	-	221	-	221
<b>Total non-interest-bearing financial assets</b>	<b>5,004</b>	<b>-</b>	<b>-</b>	<b>221</b>	<b>-</b>	<b>5,225</b>
<b>Total financial assets</b>	<b>8,298</b>	<b>4,421</b>	<b>6,241</b>	<b>11,212</b>	<b>12,653</b>	<b>42,825</b>
<b>FINANCIAL LIABILITIES</b>						
Interest rate instruments						
Borrowed funds	7,375	2,162	644	6,961	10,897	28,039
Debt securities issued	-	1,765	-	2,518	-	4,283
Lease liabilities	27	55	111	141	300	634
<b>Total fixed interest-bearing financial liabilities</b>	<b>7,402</b>	<b>3,982</b>	<b>755</b>	<b>9,620</b>	<b>11,197</b>	<b>32,956</b>
Non-interest-bearing financial liabilities						
Other financial liabilities	180	-	521	59	-	760
<b>Total non-interest-bearing financial liabilities</b>	<b>180</b>	<b>-</b>	<b>521</b>	<b>59</b>	<b>-</b>	<b>760</b>
<b>Total financial liabilities and commitments</b>	<b>7,582</b>	<b>3,982</b>	<b>1,276</b>	<b>9,679</b>	<b>11,957</b>	<b>33,716</b>
Liquidity gap	716	439	4,965	1,533	1,456	
<b>Cumulative liquidity gap</b>	<b>716</b>	<b>1,577</b>	<b>6,120</b>	<b>7,653</b>	<b>9,109</b>	

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The table below shows the expected maturity analysis as at 31 December 2023:

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	31 December 2023 Total
<b>FINANCIAL ASSETS</b>						
Interest rate instruments						
Loans to customers, net	3,016	2,120	2,087	4,882	21,154	33,259
<b>Total fixed interest-bearing financial assets</b>	<b>3,016</b>	<b>2,120</b>	<b>2,087</b>	<b>4,882</b>	<b>21,154</b>	<b>33,259</b>
Non-interest bearing financial assets						
Cash and cash equivalents	1,603	-	-	-	-	1,603
Other financial assets	-	-	-	214	-	214
<b>Total non-interest bearing financial assets</b>	<b>1,603</b>	<b>-</b>	<b>-</b>	<b>214</b>	<b>-</b>	<b>1,817</b>
<b>Total financial assets</b>	<b>4,619</b>	<b>2,120</b>	<b>2,087</b>	<b>5,096</b>	<b>21,154</b>	<b>35,076</b>
<b>FINANCIAL LIABILITIES</b>						
Interest rate instruments						
Borrowed funds	1,335	1,149	2,611	5,487	7,872	18,454
Debt securities issued	-	1,764	1,765	-	1,765	5,294
Lease liabilities	21	59	84	159	217	540
<b>Total fixed interest-bearing financial liabilities</b>	<b>1,356</b>	<b>2,972</b>	<b>4,460</b>	<b>5,646</b>	<b>9,854</b>	<b>24,288</b>
Non-interest bearing financial liabilities						
Other financial liabilities	884	-	-	297	-	1,181
<b>Total non-interest bearing financial liabilities</b>	<b>884</b>	<b>-</b>	<b>-</b>	<b>297</b>	<b>-</b>	<b>1,181</b>
<b>Total financial liabilities and commitments</b>	<b>2,240</b>	<b>2,972</b>	<b>4,460</b>	<b>5,943</b>	<b>9,854</b>	<b>25,469</b>
Liquidity gap	2,379	(852)	(2,373)	(847)	11,300	
<b>Cumulative liquidity gap</b>	<b>2,379</b>	<b>1,527</b>	<b>(846)</b>	<b>(1,693)</b>	<b>9,607</b>	

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**Maturity analysis of undiscounted financial liabilities.** The following tables detail the Company’s remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

The table below shows the maturity analysis of undiscounted financial liabilities as at 31 December 2024:

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	31 December 2024 Total
<b>FINANCIAL LIABILITIES</b>						
Interest rate instruments	7,523	2,275	3,468	5,447	7,677	26,390
Borrowed funds	56	1,830	54	53	2,336	4,329
Debt securities issued	17	34	70	88	187	396
Lease liabilities						
<b>Total fixed interest-bearing financial liabilities</b>	<b>7,596</b>	<b>4,139</b>	<b>3,592</b>	<b>5,588</b>	<b>10,200</b>	<b>31,115</b>
Non-interest bearing financial liabilities						
Other financial liabilities	180	-	520	570	-	1,270
<b>Total non-interest bearing financial liabilities</b>	<b>180</b>	<b>-</b>	<b>520</b>	<b>570</b>	<b>-</b>	<b>1,270</b>
<b>Total financial liabilities and commitments</b>	<b>7,776</b>	<b>4,139</b>	<b>4,112</b>	<b>6,158</b>	<b>10,200</b>	<b>32,385</b>

The table below shows the maturity analysis of undiscounted financial liabilities as at 31 December 2023:

**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)**  
*(in thousands of US dollars, unless otherwise indicated)*

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	31 December 2023 Total
<b>FINANCIAL LIABILITIES</b>						
Interest rate instruments						
Borrowed funds	1,466	1,398	2,933	6,185	8,957	20,939
Debt securities issued	55	1,875	1,875	111	1,820	5,736
Lease liabilities	32	64	256	254	-	606
<b>Total fixed interest-bearing financial liabilities</b>	<b>1,553</b>	<b>3,337</b>	<b>5,064</b>	<b>6,550</b>	<b>10,777</b>	<b>27,281</b>
Non-interest bearing financial liabilities						
Other financial liabilities	883	-	-	298	-	1,181
<b>Total non-interest bearing financial liabilities</b>	<b>883</b>	<b>-</b>	<b>-</b>	<b>298</b>	<b>-</b>	<b>1,181</b>
<b>Total financial liabilities and commitments</b>	<b>2,436</b>	<b>3,337</b>	<b>5,064</b>	<b>6,848</b>	<b>10,777</b>	<b>28,462</b>

**“FINCA AZERBAIJAN” LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2024 (Continued)**  
*(in thousands of US dollars, unless otherwise indicated)*

**Credit rating analysis.** The following table details credit ratings of financial assets held by the Company that are neither past due nor impaired:

<b>31 December 2024</b>	<b>BB-</b>	<b>B1</b>	<b>Ba3</b>	<b>Ba2</b>	<b>Not rated</b>	<b>Total</b>
Cash at banks	4,452	-	-	-	552	5,004
Loans to customers, net	-	-	-	-	37,600	37,600
Other financial assets	-	-	-	-	221	221

  

<b>31 December 2023</b>	<b>BB-</b>	<b>B1</b>	<b>Ba3</b>	<b>Ba2</b>	<b>Not rated</b>	<b>Total</b>
Cash at banks	1,008	-	-	-	595	1,603
Loans to customers, net	-	-	-	-	33,259	33,259
Other financial assets	-	-	-	-	214	214

The Company enters into numerous transactions where the counterparties are not rated by international rating agencies. The Company has developed internal models, which allow it to determine the rating of counterparties, which are comparable to the rating of international rating agencies.

A model of the borrower’s scoring assessment has been developed in the Company to assess and decide on loan customers. The scoring model is developed relating to loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

The scoring assessment based on the borrower’s parameters is one of the main factors in the decision-making process relating to loans.

A methodology of evaluation of borrowers is based on the following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The maximum limit of a loan is calculated using a ratio of debt pressure on a borrower.

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor’s and Moody’s be advised that rating titles and therefore rating meanings are different from agency to agency. The highest possible rating is AAA. Investment-grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as a speculative grade.

**Operational risk.** Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

**24. EVENTS AFTER THE REPORTING DATE**

Subsequent to the year end the Company has issued 60,000 bonds with a value of 100 each.

**25. CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified, wherever necessary, to facilitate comparisons. However, no significant reclassifications made during the current year.

**26. GENERAL**

Figures have been rounded off to nearest thousand of Azerbaijani manats, unless otherwise stated.