

**“BANK VTB (AZERBAIJAN)”
OPEN JOINT STOCK COMPANY**

**Financial Statements and
Independent Auditors' Report**
For the Year Ended December 31, 2025

“BANK VTB (AZERBAIJAN)” OPEN JOINT STOCK COMPANY

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025

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

The Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2025, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

In preparing the financial statements, the management is responsible for:

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

The Management is also responsible for:

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

The financial statements for the year ended December 31, 2025 were authorized for issue on March 31, 2026 by the Management Board of the Bank.

On behalf of the Management Board:

Mr. Iqor Okayev
Chairman of the Management

March 31, 2026
Baku, the Republic of Azerbaijan

Mr. Yusif Mammadov
Chief Accountant

March 31, 2026
Baku, the Republic of Azerbaijan

Mr. Ivan Polyakov
Chief Financial Officer

March 31, 2026
Baku, the Republic of Azerbaijan



INDEPENDENT AUDITORS' REPORT

To the Shareholders, Supervisory Board and Management of "Bank VTB (Azerbaijan)" Open Joint Stock Company:

Opinion

We have audited the financial statements of "Bank VTB (Azerbaijan)" Open Joint Stock Company (the "Bank"), which comprise the statement of financial position as at December 31, 2025, and 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 a summary of material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2025, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Note 17 to the financial statements, which describes the fact that "Bank VTB" OJSC and its subsidiaries, including the Bank, are exposed to numerous sanctions imposed by the majority of Western countries as at December 31, 2025 and the date of issue of these financial statements. The main impact of the imposed sanctions affected the Bank's functionality on transactions with the US dollar and Euro, as well as restrictions on the Bank's plastic cards and blockage of the SWIFT system. The management took a number of measures as described in Note 17, to minimize negative impacts of the sanctions and maintain the sustainability of business operations of the Bank.

Responsibilities of the Management and Audit Committee for the Financial Statements

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

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISA 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 the ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

Baker Tilly Azerbaijan

March 31, 2026
Baku, the Republic of Azerbaijan

“BANK VTB (AZERBAIJAN)” OPEN JOINT STOCK COMPANY

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2025

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	December 31, 2025	December 31, 2024
Assets			
Cash and cash equivalents	5, 25	44,233	40,834
Mandatory reserves with the Central Bank of the Republic of Azerbaijan	6	5,746	6,384
Amounts due from credit institutions	6, 25	7,173	8,160
Investment securities	7	10,347	27,331
Loans to customers	8	225,308	219,524
Property and equipment	9	9,437	9,949
Intangible assets	10	9,603	8,885
Right-of-use assets	11	4,664	4,978
Other assets	13	3,788	4,852
Total assets		320,299	330,897
Liabilities			
Amounts due to banks and other credit institutions	14, 25	80,051	91,907
Amounts due to customers	15, 25	102,117	114,483
Lease liabilities	11	4,998	5,244
Deferred income tax liabilities	12	670	805
Other liabilities	13	12,482	10,091
Total liabilities		200,318	222,530
Equity			
Share capital	16	315,815	315,815
Accumulated deficit		(195,754)	(207,313)
Other reserves		(80)	(135)
Total equity		119,981	108,367
Total liabilities and equity		320,299	330,897

On behalf of the Management Board:


Mr. Iqor Okayev
Chairman of the Management

March 31, 2026
Baku, the Republic of Azerbaijan


Mr. Yusif Mammadov
Chief Accountant

March 31, 2026
Baku, the Republic of Azerbaijan


Mr. Ivan Polyakov
Chief Financial Officer

March 31, 2026
Baku, the Republic of Azerbaijan

The notes on pages 8 to 57 form an integral part of these financial statements.

“BANK VTB (AZERBAIJAN)” OPEN JOINT STOCK COMPANY

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2025

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	Year ended December 31, 2025	Year ended December 31, 2024 (Reclassified)
Interest income calculated using effective interest rate		40,709	32,360
Interest expense		(10,357)	(9,074)
Net interest income	19, 25	30,352	23,286
Credit loss reversal and other impairment provisions	18	2,755	4,784
Net interest income after credit loss reversal		33,107	28,070
Fee and commission income	20	4,605	2,999
Fee and commission expense	20	(1,526)	(1,598)
Net gains from foreign currencies:			
- dealing	25	8,878	9,514
- translation differences		51	(169)
Net results from foreign currency derivatives	13	(1,067)	-
Other income		1,397	1,231
Non-interest income		12,338	11,977
Operating expenses	21	(30,885)	(30,329)
Profit before income tax		14,560	9,718
Income tax expense	12	(3,001)	(2,068)
Net profit for the year		11,559	7,650
Other comprehensive income/(loss) for the year		55	(135)
Total comprehensive income for the year		11,614	7,515

On behalf of the Management Board:


Mr. Iqor Okayev
Chairman of the Management


Mr. Yusif Mammadov
Chief Accountant


Mr. Ivan Polyakov
Chief Financial Officer

March 31, 2026
Baku, the Republic of Azerbaijan

March 31, 2026
Baku, the Republic of Azerbaijan

March 31, 2026
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“BANK VTB (AZERBAIJAN)” OPEN JOINT STOCK COMPANY

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2025**

(Figures in tables are in thousands of Azerbaijani manats)

	Share capital	Accumulated deficit	Other reserves	Total equity
January 1, 2024	315,815	(214,963)	-	100,852
Total comprehensive income for the year	-	7,650	(135)	7,515
December 31, 2024	315,815	(207,313)	(135)	108,367
Total comprehensive income for the year	-	11,559	55	11,614
December 31, 2025	<u>315,815</u>	<u>(195,754)</u>	<u>(80)</u>	<u>119,981</u>

On behalf of the Management Board:

Mr. Iqor Okayev
Chairman of the Management

March 31, 2026
Baku, the Republic of Azerbaijan

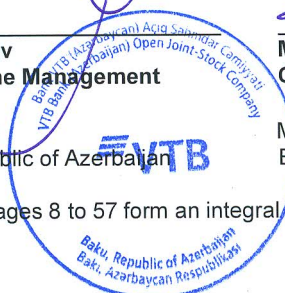
Mr. Yusif Mammadov
Chief Accountant

March 31, 2026
Baku, the Republic of Azerbaijan

Mr. Ivan Polyakov
Chief Financial Officer

March 31, 2026
Baku, the Republic of Azerbaijan

The notes on pages 8 to 57 form an integral part of these financial statements.



“BANK VTB (AZERBAIJAN)” OPEN JOINT STOCK COMPANY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2025**

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	Year ended December 31, 2025	Year ended December 31, 2024
Cash flows from operating activities			
Interest received		41,955	30,456
Interest paid		(8,867)	(9,386)
Fees and commissions received		4,605	3,297
Fees and commissions paid		(1,526)	(1,598)
Realized gains less losses from dealing in foreign currencies		8,878	9,514
Operating expenses paid		(7,878)	(5,318)
Personnel expenses paid		(19,560)	(17,083)
Other operating income received		965	1,021
		18,572	10,903
Cash flows from operating activities before changes in operating assets and liabilities			
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		13,083	(6,762)
Mandatory reserves with the Central Bank of the Republic of Azerbaijan		638	(2,013)
Loans to customers		(2,984)	(27,370)
Other assets		1,532	(867)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to banks and other credit institutions		218	18,624
Amounts due to customers		(21,281)	26,951
Other liabilities		(1,236)	3,096
Income tax paid		(1,940)	(3,305)
		6,602	19,257
Net cash provided from operating activities			
Cash flows from investing activities			
Payments for purchase of property and equipment		(745)	(4,747)
Payments for purchase of intangible assets		(2,287)	(2,483)
Payments for purchase of investment securities		-	(26,470)
Proceeds from sale and redemption of investment securities		16,363	11,171
		13,331	(22,529)
Cash flows from financing activities			
Repayment of borrowings	26	(12,087)	9,387
Lease liabilities paid	11	(988)	(913)
		(13,075)	8,474
Net cash (used in)/provided from financing activities			
Effect of exchange rate changes on cash and cash equivalents		(3,459)	(190)
		3,399	5,012
Net increase in cash and cash equivalents			
Cash and cash equivalents, at the beginning of the year	5	40,834	35,822
Cash and cash equivalents, at the end of the year	5	44,233	40,834

On behalf of the Management Board:

Mr. Iqor Okayev
Chairman of the Management

March 31, 2026
Baku, the Republic of Azerbaijan

Mr. Yusif Mammadov
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March 31, 2026
Baku, the Republic of Azerbaijan

Mr. Ivan Polyakov
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March 31, 2026
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“BANK VTB (AZERBAIJAN)” OPEN JOINT STOCK COMPANY

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

(Figures in tables are in thousands of Azerbaijani manats)

1. Principal activities

“Bank VTB (Azerbaijan)” Open Joint Stock Company (the “Bank”) was formed as “AF-Bank” OJSC on December 14, 1993, under the laws of the Republic of Azerbaijan. The Bank operates under a general banking license number 162 issued by the Central Bank of the Republic of Azerbaijan (the “CBAR”) on October 22, 1993.

The Bank accepts deposits from the public and extends credit, transfers payments, exchanges currencies and provides other banking services to its commercial and retail customers.

The Bank participates in the state deposit insurance scheme, which was introduced by the law on “Insurance of individual deposits in the Republic of Azerbaijan” dated December 29, 2006. Insurance covers the Bank’s liabilities to individual depositors in case of business failure and revocation of the CBAR banking license.

The Bank had 7 branches (December 31, 2025: 7 branches) within the Republic of Azerbaijan. The Bank had 485 employees as at December 31, 2025 (December 31, 2024: 472). The Bank’s registered legal address is 38, Khatai Avenue, Baku, the Republic of Azerbaijan.

As at December 31, 2025 and 2024 the following shareholders owned the share capital of the Bank:

Shareholders	December 31, 2025, %	December 31, 2024, %
“Bank VTB” PJSC (the Russian Federation)	99.9999	99.9999
Mr. Adigozel Agayev	0.0001	0.0001
Total	100.00	100.00

As at the date of these financial statements, the ultimate controlling party of the Bank is the government of the Russian Federation through “Bank VTB” PJSC (the Russian Federation).

2. Basis of preparation

General

These financial statements have been prepared in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board (IFRS Accounting Standards).

The Bank maintains its accounting records in accordance with the laws and regulations of the Republic of Azerbaijan. These financial statements are based on those accounting records, as adjusted and reclassified to comply with IFRS Accounting Standards issued by the International Accounting Standards Board (IFRS Accounting Standards).

These financial statements have been prepared under the historical cost convention except for derivative financial instruments which have been measured at fair value.

The Azerbaijani manat (“AZN”), which is the national currency of the Republic of Azerbaijan, is the reporting and functional currency of the Bank. Transactions in other currencies are treated as transactions in foreign currencies. These financial statements are presented in thousands of AZN except for share amounts and unless otherwise indicated.

“BANK VTB (AZERBAIJAN)” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(Figures in tables are in thousands of Azerbaijani manats)*

The summary of material accounting policy information applied in the preparation of these financial statements is set out below in Note 3. These policies have been consistently applied to all the periods presented, unless otherwise stated.

3. Summary of material accounting policy information.

Several amendments effective since January 1, 2025 were applied but do not have an impact on the financial statements of the Bank.

Fair value measurement

The Bank measures financial instruments, such as derivatives, at fair value at each balance sheet date. Fair values of financial instruments measured at amortized cost are disclosed in Note 23.

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and the best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognized on the trade date i.e., the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

“BANK VTB (AZERBAIJAN)” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(Figures in tables are in thousands of Azerbaijani manats)*

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms, measured at either:

- Amortized cost;
- FVOCI;
- FVPL.

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from credit institutions, loans to customers, investment securities at amortized cost

The Bank only measures amounts due from credit institutions, loans to customers and other financial investments measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- 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 (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

“BANK VTB (AZERBAIJAN)” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(Figures in tables are in thousands of Azerbaijani manats)*

The SPPI test

As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of profit or loss and other comprehensive income, and an ECL provision.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its liabilities in 2025.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, amounts due from the CBAR, excluding obligatory reserves and short-term notes issued by the CBAR, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Mandatory reserves with the Central Bank of the Republic of Azerbaijan

Mandatory cash balances in AZN and foreign currency held with the CBAR represent non-interest-bearing mandatory reserve deposits, which are not available to finance the Bank’s day-to-day operations, and hence are not considered as part of cash and cash equivalents for the purpose of the statement of cash flows.

Amounts due from credit institutions

Amounts due from other institutions are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting receivable, which is due on fixed or determinable dates. Amounts due from credit institutions are carried at amortized cost less allowance for expected credit losses.

“BANK VTB (AZERBAIJAN)” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(Figures in tables are in thousands of Azerbaijani manats)*

Investment securities

After initial measurement, investment securities (including short-term notes issued by the CBAR) are subsequently measured at amortized cost. Starting from 2024 based on the changed business model and the cash flow characteristics, the Bank reclassifies investment in debt securities as carried at FVOCI.

Debt securities classified are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and not designated at FVPL. Interest income from these assets is calculated using the effective interest method and recognized in profit or loss. An impairment allowance estimated using the expected credit loss model is recognized in profit or loss for the year. All other changes in carrying value are recognized in OCI. When the debt securities are derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from OCI to profit or loss.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as net gains/(losses) from trading securities or net gains/(losses) from foreign currency dealings, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in liabilities and non-financial host contracts are treated as separate derivatives and recorded at fair value if they meet the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognized in the statement of comprehensive income. Financial assets are classified based on the business model and SPPI assessments.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to banks and other financial institutions. Securities purchased under agreements to resell (“reverse repo”) are recorded as investment securities or cash and cash equivalents as appropriate. The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of profit or loss. The obligation to return them is recorded at fair value as a trading liability.

“BANK VTB (AZERBAIJAN)” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(Figures in tables are in thousands of Azerbaijani manats)*

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to banks and other credit institutions, due to customers and subordinated debts. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in profit or loss.

Leases

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank 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 Bank 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 remeasurement 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. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life (10 years) and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5 thousand). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. Restructuring of impaired loans does not result in derecognition of financial instrument, unless there is a change in contractual currency of the loan on renegotiation along with a substantial change in interest rate. When assessing whether or not to derecognize a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, presented within a separate line in the statement of profit or loss and other comprehensive income, to the extent that an impairment loss has not already been recorded.

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “through” arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

Financial assets are written off either partially or in their entirety only when the Bank has no realistic expectation of recovering the financial assets and as a result – stopped pursuing their recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A 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 the statement of profit or loss and other comprehensive income.

Taxation

The current income tax expense is calculated in accordance with the laws and regulations of the Republic of Azerbaijan.

Deferred income tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

In addition, there are various operating taxes in Azerbaijan, such as VAT, property tax, withholding tax and others which become relevant as a result of the Bank's operations. These taxes are included as a component of operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	2025 (years)	2024 (years)
Leasehold improvements	7	10
Computer equipment	10	10
Furniture and fixtures	10	7-10
Motor vehicles	7	10
Other property and equipment	7	6-7

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include acquired and internally generated computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as internally-generated intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditures are reflected in profit or loss in the period in which the expenditure is incurred. Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Bank can demonstrate:

- Probability of generating future economic benefits;
- Intention to complete the intangible asset;
- Financial and other resources available;
- Ability to use or sell the intangible asset;
- Technical feasibility of completing the intangible asset;
- Estimate of development expenditure attributable to the intangible asset can be measured reliably.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 3 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Impairment of non-financial assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and 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 Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using the Bank's borrowing rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss accounts, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years.

A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is earned at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-employment benefits.

Reposessed collateral

In certain circumstances, collateral is reposessed following the foreclosure on loans that are in default. Reposessed collateral is measured in accordance with IAS 2 *Inventories* at the lower of cost and net realizable value and reported within “Other assets”.

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

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Interest and similar income and expense

The Bank calculates interest income on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

Fee and commission income

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

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees include commission income for provision of the following services: cash withdrawals, consulting, settlement operations, documentary operations and fees charged for transactions with plastic cards, etc. These fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Foreign currency translation

The financial statements are presented in Azerbaijani manats, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of comprehensive income as net gain/(losses) from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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Differences between the contractual exchange rate of a transaction in a foreign currency and the CBAR exchange rate on the date of the transaction are included in net gain/(losses) from foreign currencies – dealing. The official CBAR exchange rates at December 31, 2025 and 2024 were as follows:

	December 31, 2025	December 31, 2024
USD/AZN	1.7000	1.7000
GBP/AZN	2.2970	2.1382
EUR/AZN	2.0022	1.7724
RUB/AZN	0.0217	0.0163

Foreign exchange revaluation of expected credit loss allowance of loans denominated in foreign currency

Allowance for impairment of loans denominated in foreign currency is accounted for in the same currency as the loans, which they are made for. Gains and losses from the revaluation of previously recognized allowance for loan impairment denominated in foreign currencies are included in ‘net losses/gains from foreign currencies - translation differences’ in the statement of comprehensive income.

Government grants and government assistance

Government grants are recognized where there is a reasonable assurance that the grant will be received and all the related conditions will be complied with. Where the grant relates to an expense item, it is recognized as income in the same periods as the respective expenses, and it is intended to compensate on a systematic basis. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Government loans provided at below market interest rates are recognized in accordance with the IFRS 9. The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognized in the statement of financial position. This benefit is accounted for in accordance with IAS 20.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognized in a separate line of the statement of profit or loss and other comprehensive income for the period in which it becomes receivable.

Adoption of new and revised standards and interpretations

In the current period, the Bank has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for the period since inception to December 31, 2025.

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

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

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4. Significant accounting judgments and estimates

Standards and interpretations issued but not yet effective

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

On May 30, 2024, the IASB issued amendments to **IFRS 9 “Financial Instruments”** and **IFRS 7 “Financial Instruments: Disclosures”** concerning the classification and measurement of financial instruments. Key changes include:

- Derecognition of financial liabilities: Allows liabilities settled via electronic transfer to be considered discharged prior to the settlement date under specified criteria.
- Classification of financial assets: Provides guidance on assessing contractual terms for basic lending arrangements, enhances the definition of non-recourse features, and clarifies characteristics of contractually linked instruments.
- Disclosures: Introduces new requirements for equity investments at fair value through OCI and for contingent terms affecting cash flows.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026, with retrospective application allowed and early adoption permitted.

On July 18, 2024, the IASB published “**Annual Improvements to IFRS Accounting Standards – Volume 11**”.

This publication includes the following amendments:

IFRS 1: Clarifications on hedge accounting for first-time adopters.
IFRS 7: Guidance on recognizing gains or losses on derecognition.
IFRS 7: Improved disclosures for deferred differences between fair value and transaction price.
IFRS 7: Enhancements to introduction and credit risk disclosures.
IFRS 9: Clarifications on lessee derecognition of lease liabilities.
IFRS 9: Additional guidance on transaction price determination.
IFRS 10: Clarifications on the determination of a ‘de facto agent.’
IAS 7: Improvements related to the cost method.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026.

In December 2024, the IASB issued “**Contracts Referencing Nature-dependent Electricity” (Amendments to IFRS 9 and IFRS 7)**. The amendments address the accounting for certain long-term power purchase agreements (PPAs) and similar contracts whose cash flows vary depending on natural conditions, such as wind or sunlight, which are increasingly used in renewable energy markets.

The amendments clarify that contracts that reference nature-dependent electricity can qualify as having cash flows that are solely payments of principal and interest (SPPI), even though the quantity of electricity delivered (and therefore the cash flows) varies due to nature-dependent factors. This clarification enables such contracts to be measured at amortised cost or fair value through other comprehensive income (FVOCI), provided all other relevant conditions in IFRS 9 are met.

In addition, the amendments introduce targeted disclosure requirements in IFRS 7 to enable users of financial statements to understand the effects of these contracts on an entity’s financial position, performance and cash flows, including information about volume risk and pricing mechanisms.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026, with earlier application permitted. Comparative information is not required to be restated on initial application.

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

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

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

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

In May 2024, the IASB published the new standard **IFRS 19 “Subsidiaries without Public Accountability: Disclosures”**, which permits a subsidiary to provide reduced disclosures when applying IFRS Accounting Standards in its financial statements. IFRS 19 is optional for subsidiaries that are eligible and sets out the disclosure requirements for subsidiaries that elect to apply it.

An entity is only permitted to apply IFRS 19 when:

- it is a subsidiary;
- it does not have public accountability, and
- its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

In August 2025, the IASB issued amendments to the standard. These amendments update IFRS 19 to reflect new and amended IFRS Accounting Standards issued between February 2021 and May 2024, ensuring that the reduced disclosure framework remains aligned with current IFRS Accounting Standards requirements.

The amendments revise and add disclosure requirements within IFRS 19 to incorporate changes arising from recently issued standards and amendments, while maintaining the objective of IFRS 19 to reduce disclosure burdens for eligible subsidiaries without public accountability that apply IFRS Accounting Standards.

The amendments do not change the eligibility criteria for applying IFRS 19 and do not affect the recognition or measurement requirements applied by subsidiaries. Instead, they ensure that entities applying IFRS 19 provide disclosures that remain relevant and decision-useful in light of developments in IFRS Accounting Standards.

The new standard and amendments to it are effective for reporting periods beginning on or after January 1, 2027, with earlier application permitted.

In November 2025, the IASB issued **“Translation to a Hyperinflationary Presentation Currency” (Amendments to IAS 21)**. The amendments address a specific gap in IAS 21 relating to situations in which an entity’s presentation currency becomes hyperinflationary, while the entity’s functional currency is not hyperinflationary.

The amendments clarify how an entity translates its financial statements into a hyperinflationary presentation currency, including how comparative information is presented. In particular, the amendments specify that when an entity presents its financial statements in a hyperinflationary currency, it applies the requirements of IAS 29 “Financial Reporting in Hyperinflationary Economies” to the presentation currency, even if the entity’s functional currency is not hyperinflationary.

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The amendments improve consistency and comparability by ensuring that financial statements presented in a hyperinflationary currency appropriately reflect the effects of hyperinflation for users of financial statements.

The amendments are effective for annual reporting periods beginning on or after January 1, 2027, with earlier application permitted.

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

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

On June 26, 2023, the International Sustainability Standards Board (ISSB) published the first two IFRS Sustainability Disclosure Standards **IFRS S1 “General requirements for the disclosure of sustainability-related financial information”** and **IFRS S2 “Climate-related disclosures”**. The standards contain requirements for the disclosure of material information about an entity’s significant sustainability-related risks and opportunities that are necessary for investors to evaluate the entity.

IFRS S1 establishes general requirements with the objective of requiring an entity to disclose information about its sustainability-related risks and opportunities. IFRS S1 prescribes how an entity should prepare and present its sustainability-related financial information. It sets out general requirements for the content and presentation of these disclosures so that the information disclosed is useful to primary users of financial reporting in making decisions about the provision of resources to the entity.

IFRS S2 sets out requirements for identifying, assessing and disclosing information about climate-related risks and opportunities that is useful to the primary users of general-purpose financial reporting.

The two standards are to be applied for reporting periods beginning on or after January 1, 2024. Earlier application is permitted. If an entity applies IFRS S1 earlier, it must disclose this accordingly and apply IFRS S2 at the same time.

The mandatory application of the ISSB standards is dependent on their adoption by a jurisdiction into applicable law. This does not affect entities’ ability to apply the standards voluntarily (in addition). As at the date of this report, these standards were not adopted by the jurisdiction where the Bank operates.

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

Estimation uncertainty

In the process of applying the Bank’s accounting policies, the management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

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Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The amount of allowance for loan impairment recognized in the statement of financial position as at December 31, 2025 was AZN 24,752 thousand (December 31, 2024: AZN 24,886 thousand). More details are provided in Note 8.

The management monitors market value of collateral on a regular basis. The management uses its experienced judgment and independent opinion to adjust the fair value to reflect the current circumstances. The amount and collateral required depend on the assessment of credit risk of the counterparty.

Initial recognition of related party transactions

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

More details are provided in Note 25.

Useful lives of property and equipment

The estimation of the useful lives of items of property and equipment is a matter of judgment. The management regularly assesses the remaining useful lives of assets based on the experience with similar assets.

Recognition and measurement of research and development costs

Due to the fact that certain aspects of the recognition and measurement process can be subjective and judgmental as they inherently depend on management's intention it may need to rely on robust data capturing systems and sound controls. The management involves significant judgment to address adequately these aspects in a timely manner before the 'capitalize vs expense' decision is taken. Therefore, the management makes reasonable distinction between research and development phase and treats expenditure incurred appropriately. As at December 31, 2025, the carrying amount of internally generated intangible assets was AZN 1,987 thousand (December 31, 2024: AZN 1,690 thousand) and consisted of investment in the development of banking software. The amortization of internally developed intangible assets starts when an asset is available for use in the condition necessary to operate as intended by management.

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Net realizable value of repossessed collaterals

The net realizable value of repossessed collaterals is measured each reporting period, to ensure that the collaterals are held at a lower of cost or net realizable value.

The Bank developed a strategy for realization of these assets by the end of 2026. If no sale of the assets is observed within the one year then valuation of net realizable value of the subject assets is performed under more scrutiny and conservatism. Each property is valued separately based on the available market data. The carrying amount of repossessed collaterals at December 31, 2025 was AZN 646 thousand (December 31, 2024: AZN 2,175 thousand).

Leases - estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank ‘would have to pay’, which requires estimation when no observable rates are available (for example, when the Bank does not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the Bank’s functional currency).

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Bank’s credit rating).

Taxation

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. The management believes that as at December 31, 2025 and 2024 its interpretation of the relevant legislation is appropriate and that the Bank’s tax position will be sustained.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	December 31, 2025	December 31, 2024
Cash on hand	8,726	6,692
Current accounts with other banks	1,189	19,673
Current accounts with the CBAR	34,318	14,469
Cash and cash equivalents	44,233	40,834

Current accounts with other banks consist of non-interest-bearing correspondent account balances with resident and non-resident banks in the amount of AZN 29 thousand (December 31, 2024: nil) and AZN 1,160 thousand (December 31, 2024: AZN 19,673 thousand), respectively.

Current accounts with non-resident banks are mainly concentrated in Russia and denominated in RUB.

All balances of cash equivalents are allocated to Stage 1. The ECL relating to cash equivalents of the Bank rounds to zero.

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6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	December 31, 2025	December 31, 2024
Deposits with banks	7,173	8,160
Blocked accounts with banks	337	305
	7,510	8,465
Less: allowance for expected credit loss	(337)	(305)
Amounts due from credit institutions	7,173	8,160

As at December 31, 2025, accrued interest income included in amounts due from credit institutions amounted to 3 thousand (December 31, 2024: 9 thousand).

There were no transfers between stages during the years ended December 31, 2025 and 2024.

As at December 31, 2025, Mandatory reserves with the Central Bank of the Republic of Azerbaijan amounted to AZN 5,746 thousand (December 31, 2024: AZN 6,384 thousand).

On November 20, 2023, the CBAR made certain updates on the calculation of mandatory reserves and credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR as per new updates.

New differentiation criteria were introduced on the basis of which mandatory reserve rates are determined.

The differentiation criteria are as follows:

- Whether the deposits of legal entities in local currency are less than AZN 1,000 thousand (AZN 750 thousand for foreign currency);
- Whether the proportion of deposits from related parties to total deposits is equal or below 20%;
- Whether the proportion of Bank-related deposits to total deposits is equal or below 20%.

Since the Bank's average deposits from legal entities in local currency don't exceed AZN 1,000 thousand, the proportion of deposits and the segment of Bank-related deposits falls under 20% of total deposits, the applicable mandatory reserve rate was 5% for deposits in local currency as at December 31, 2025. For foreign currency deposits mandatory reserve rate was 6% since the Bank's average deposits from legal entities in foreign currency do not exceed AZN 750 thousand and Bank-related deposits fall under 20% of total deposits.

7. Investment securities

Investment securities comprise:

	December 31, 2025	December 31, 2024
Notes issued by the Ministry of Finance of the Republic of Azerbaijan	10,347	24,755
Notes issued by the CBAR	-	2,576
Investment securities	10,347	27,331

All investment securities are measured at FVOCI and are allocated to Stage 1. The ECL relating to investment securities of the Bank rounds to zero.

There were no transfers between stages during the years ended December 31, 2025 and 2024.

As at December 31, 2025, accrued interest income included in investment securities amounted to AZN 427 thousand (December 31, 2024: AZN 1,103 thousand).

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8. Loans to customers

Loans to customers comprise:

	December 31, 2025	December 31, 2024
Small business lending	54,191	54,624
Corporate lending	18,089	32,009
Consumer lending	177,780	157,777
Gross loans to customers	250,060	244,410
Less: allowance for expected credit loss	(24,752)	(24,886)
Net loans to customers	225,308	219,524

As at December 31, 2025, the Bank had a concentration of loans represented by AZN 18,438 thousand due from 10 (December 31, 2024: 10) largest third-party borrowers (7% of gross loan portfolio) (December 31, 2024: AZN 19,437 thousand or 8% of gross loan portfolio). An allowance of AZN 7,912 thousand (December 31, 2024: AZN 10,048 thousand) was recognized against these loans.

As at December 31, 2025, accrued interest income included in loans to customers amounted to AZN 2,362 thousand (December 31, 2024: AZN 2,583 thousand).

Loans have been extended to the following types of customers:

	December 31, 2025	December 31, 2024
Individuals	177,780	157,777
Individual entrepreneurs	43,021	42,694
Private companies	29,259	43,939
Gross loans to customers	250,060	244,410

Loans are made principally within the Republic of Azerbaijan in the following industry sectors:

	December 31, 2025	December 31, 2024
Individuals	177,780	157,777
Services	32,378	67,110
Manufacturing	18,275	4,660
Trading enterprises	16,701	10,506
Transport	4,056	2,262
Credit Institutions	-	2,095
Construction	870	-
Gross loans to customers	250,060	244,410

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An analysis of changes in the gross carrying value and corresponding ECL in relation to small business lending during the year ended December 31, 2025, is as follows:

<i>Small business lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2025	46,594	2,049	5,981	54,624
New assets originated or purchased	46,464	1,649	1,251	49,364
Assets repaid	(41,460)	(2,753)	(6,194)	(50,407)
Transfers to Stage 1	184	(141)	(43)	-
Transfers to Stage 2	(1,740)	1,757	(17)	-
Transfers to Stage 3	(2,749)	(235)	2,984	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	98	98
Recovery	-	-	2,603	2,603
Amounts written off	(6)	-	(2,085)	(2,091)
Gross carrying value as at December 31, 2025	47,287	2,326	4,578	54,191

<i>Small business lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at January 1, 2025	718	220	5,078	6,016
<i>Movements with impact on credit loss allowance reversal in profit or loss</i>				
New assets originated or purchased	549	439	1,202	2,190
Assets repaid	1,931	(704)	(3,898)	(2,671)
Changes to inputs used for ECL calculations	(17)	71	(2,438)	(2,384)
Transfers to Stage 1	11	(2)	(9)	-
Transfers to Stage 2	(590)	598	(8)	-
Transfers to Stage 3	(1,723)	(143)	1,866	-
Impact on period end ECL of exposures transferred between stages during the period	(50)	198	820	968
<i>Movements without impact on credit loss allowance reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for Stage 3 loans)	-	-	196	196
Recovery	-	-	2,603	2,603
Amounts written off	(6)	-	(2,085)	(2,091)
ECL as at December 31, 2025	823	677	3,327	4,827

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended December 31, 2025 is as follows:

<i>Corporate lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2025	21,955	-	10,054	32,009
New assets originated or purchased	8,794	378	256	9,428
Assets repaid	(20,808)	(378)	(3,253)	(24,439)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	385	(385)	-
Transfers to Stage 3	(349)	-	349	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	471	471
Recovery	-	-	620	620
Amounts written off	-	-	-	-
Gross carrying value as at December 31, 2025	9,592	385	8,112	18,089

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Corporate lending	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2025	626	-	9,427	10,053
<i>Movements with impact on credit loss allowance reversal in profit or loss</i>				
New assets originated or purchased	525	-	-	525
Assets repaid	(190)	349	(3,033)	(2,874)
Changes to inputs used for ECL calculations	45	-	432	477
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	7	(7)	-
Transfers to Stage 3	(208)	-	208	-
Impact on period end ECL of exposures transferred between stages during the period	-	(349)	208	(141)
<i>Movements without impact on credit loss allowance reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for Stage 3 loans)	-	-	-	-
Recovery	-	-	620	620
Amounts written off	-	-	-	-
ECL as at December 31, 2025	798	7	7,855	8,660

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer lending during the year ended December 31, 2025 is as follows:

Consumer lending	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2025	148,894	1,542	7,341	157,777
New assets originated or purchased	163,330	1,110	2,075	166,515
Assets repaid	(141,342)	(1,843)	(4,291)	(147,476)
Transfers to Stage 1	627	(189)	(438)	-
Transfers to Stage 2	(1,872)	2,057	(185)	-
Transfers to Stage 3	(4,169)	(538)	4,707	-
Changes to contractual cash flows due to modifications not resulting in derecognition	1	-	1	2
Recovery	-	-	1,466	1,466
Amounts written off	(2)	-	(502)	(504)
Gross carrying value as at December 31, 2025	165,467	2,139	10,174	177,780

Consumer lending	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2025	2,165	683	5,969	8,817
<i>Movements with impact on credit loss allowance reversal in profit or loss</i>				
New assets originated or purchased	949	302	950	2,201
Assets repaid	3,295	(1,091)	(5,600)	(3,396)
Changes to inputs used for ECL calculations	34	(2)	(224)	(192)
Transfers to Stage 1	116	(28)	(88)	-
Transfers to Stage 2	(891)	1,000	(109)	-
Transfers to Stage 3	(3,108)	(424)	3,532	-
Impact on period end ECL of exposures transferred between stages during the period	(421)	589	2,346	2,514
<i>Movements without impact on credit loss allowance reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for Stage 3 loans)	-	-	359	359
Recovery	-	-	1,466	1,466
Amounts written off	(2)	-	(502)	(504)
ECL as at December 31, 2025	2,137	1,029	8,099	11,265

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An analysis of changes in the gross carrying value and corresponding ECL in relation to small business lending during the year ended December 31, 2024 is as follows:

<i>Small business lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2024	32,298	253	8,756	41,307
New assets originated or purchased	37,476	420	220	38,116
Assets repaid	(20,164)	(148)	(10,393)	(30,705)
Transfers to Stage 1	2	-	(2)	-
Transfers to Stage 2	(1,623)	1,623	-	-
Transfers to Stage 3	(1,399)	(99)	1,498	-
Changes to contractual cash flows due to modifications not resulting in derecognition	6	-	360	366
Recovery	-	-	5,604	5,604
Amounts written off	(1)	(1)	(62)	(64)
Gross carrying value as at December 31, 2024	46,595	2,048	5,981	54,624

<i>Small business lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at January 1, 2024	528	90	7,513	8,131
<i>Movements with impact on credit loss allowance reversal in profit or loss</i>				
New assets originated or purchased	568	86	112	766
Assets repaid	(18)	(80)	(9,860)	(9,958)
Changes to inputs used for ECL calculations	(41)	-	947	906
Transfers to Stage 1	1	-	(1)	-
Transfers to Stage 2	(70)	78	(8)	-
Transfers to Stage 3	(240)	(65)	305	-
Impact on period end ECL of exposures transferred between stages during the period	(9)	112	419	522
<i>Movements without impact on credit loss allowance reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for Stage 3 loans)	-	-	109	109
Recovery	-	-	5,604	5,604
Amounts written off	(1)	(1)	(62)	(64)
ECL as at December 31, 2024	718	220	5,078	6,016

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An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended December 31, 2024 is as follows:

<i>Corporate lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2024	33,105	366	10,174	43,645
New assets originated or purchased	16,323	13	-	16,336
Assets repaid	(27,473)	-	(1,753)	(29,226)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	(379)	379	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	298	298
Recovery	-	-	956	956
Amounts written off	-	-	-	-
Gross carrying value as at December 31, 2024	21,955	-	10,054	32,009

<i>Corporate lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at January 1, 2024	408	4	5,608	6,020
<i>Movements with impact on credit loss allowance reversal in profit or loss</i>				
New assets originated or purchased	314	-	-	314
Assets repaid	(72)	-	(2,038)	(2,110)
Changes to inputs used for ECL calculations	(24)	-	4,278	4,254
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	(4)	4	-
Impact on period end ECL of exposures transferred between stages during the period	-	-	318	318
<i>Movements without impact on credit loss allowance reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for Stage 3 loans)	-	-	301	301
Recovery	-	-	956	956
Amounts written off	-	-	-	-
ECL as at December 31, 2024	626	-	9,427	10,053

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer lending during the year ended December 31, 2024 is as follows:

<i>Consumer lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2024	116,800	2,940	3,833	123,573
New assets originated or purchased	72,662	258	502	73,422
Assets repaid	(36,637)	(460)	(3,250)	(40,347)
Transfers to Stage 1	1,266	(1,088)	(178)	-
Transfers to Stage 2	(1,061)	1,082	(21)	-
Transfers to Stage 3	(4,061)	(1,187)	5,248	-
Changes to contractual cash flows due to modifications not resulting in derecognition	26	-	2	28
Recovery	-	-	2,171	2,171
Amounts written off	(101)	(3)	(966)	(1,070)
Gross carrying value as at December 31, 2024	148,894	1,542	7,341	157,777

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Consumer lending	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2024	2,553	1,676	2,863	7,092
<i>Movements with impact on credit loss allowance reversal in profit or loss</i>				
New assets originated or purchased	1,544	118	378	2,040
Assets repaid	(199)	(239)	(2,223)	(2,661)
Changes to inputs used for ECL calculations	(424)	(20)	(581)	(1,025)
Transfers to Stage 1	767	(612)	(155)	-
Transfers to Stage 2	(115)	137	(22)	-
Transfers to Stage 3	(1,278)	(767)	2,045	-
Impact on period end ECL of exposures transferred between stages during the period	(582)	393	2,153	1,964
<i>Movements without impact on credit loss allowance reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for Stage 3 loans)	-	-	306	306
Recovery	-	-	2,171	2,171
Amounts written off	(101)	(3)	(966)	(1,070)
ECL as at December 31, 2024	2,165	683	5,969	8,817

Modified and restructured loans

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. Modification gain or loss incurred in 2025 and 2024 rounds to zero.

Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are as follows:

- For corporate and small business lending: charges over real estate and trade receivables, third-party guarantees;
- For consumer lending: cash, charges over credited consumer appliances, third-party guarantees and mortgages over residential properties;
- For auto lending: cash, liens over vehicles and third-party guarantees.

The management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

The Bank calculates the LGD rate of several corporate and small business lending loans in Stage 3 using discounted value of collaterals. As at December 31, 2025, maximum exposure of such loans amounted to AZN 9,815 thousand (December 31, 2024: AZN 14,892 thousand) for which ECL of AZN 9,384 thousand (December 31, 2024: AZN 13,711 thousand) was provided. If these loans were not collateralized, the ECL amount for these loans would be AZN 9,815 thousand (December 31, 2024: AZN 14,892 thousand).

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9. Property and equipment

The movements in property and equipment were as follows:

	<i>Leasehold improvements</i>	<i>Computer equipment</i>	<i>Furniture and fixtures</i>	<i>Motor vehicles</i>	<i>Other property and equipment</i>	<i>Total</i>
Cost						
January 1, 2024	3,191	6,841	3,488	861	305	14,686
Additions	1,239	1,485	1,766	-	238	4,728
Disposals	-	(769)	(92)	-	(11)	(872)
December 31, 2024	4,430	7,557	5,162	861	532	18,542
Additions	201	322	185	123	46	877
December 31, 2025	4,631	7,879	5,347	984	578	19,419
Accumulated depreciation						
January 1, 2024	(1,765)	(3,884)	(1,969)	(528)	(273)	(8,419)
Disposals	-	765	92	-	10	867
Depreciation charge	(203)	(405)	(318)	(73)	(42)	(1,041)
December 31, 2024	(1,968)	(3,524)	(2,195)	(601)	(305)	(8,593)
Depreciation charge	(248)	(495)	(516)	(70)	(60)	(1,389)
December 31, 2025	(2,216)	(4,019)	(2,711)	(671)	(365)	(9,982)
Net book value						
December 31, 2025	2,415	3,860	2,636	313	213	9,437
December 31, 2024	2,462	4,033	2,967	260	227	9,949

As at December 31, 2025, property and equipment amounting to AZN 5,980 thousand (December 31, 2024: AZN 5,800 thousand) were fully depreciated.

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10. Intangible assets

	<i>Licenses</i>	<i>Computer software</i>	<i>Total</i>
Cost			
January 1, 2024	3,002	9,620	12,622
Additions	312	2,171	2,483
Disposals	(201)	-	(201)
December 31, 2024	3,113	11,791	14,904
Additions	28	2,127	2,155
December 31, 2025	3,141	13,918	17,059
Accumulated amortization			
January 1, 2024	(2,164)	(2,875)	(5,039)
Disposals	201	-	201
Amortization charge	(229)	(952)	(1,181)
December 31, 2024	(2,192)	(3,827)	(6,019)
Amortization charge	(251)	(1,186)	(1,437)
December 31, 2025	(2,443)	(5,013)	(7,456)
Net book value			
December 31, 2025	698	8,905	9,603
December 31, 2024	921	7,964	8,885

As at December 31, 2025, intangible assets amounting to AZN 2,645 thousand (December 31, 2024: AZN 2,487 thousand) were fully amortized.

11. Right-of-use assets and lease liabilities

The movements in right-of-use assets were as follows:

	2025	2024
As at January 1,	4,978	5,396
Additions	211	144
Depreciation expense	(525)	(562)
As at December 31,	4,664	4,978

The movements in lease liability were as follows:

	2025	2024
As at January 1,	5,244	5,527
Additions	212	144
Interest expense	530	486
Payments	(988)	(913)
As at December 31,	4,998	5,244

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (Figures in tables are in thousands of Azerbaijani manats)

12. Taxation

The corporate income tax expense comprises:

	December 31, 2025	December 31, 2024
Current year income tax expense	(3,136)	(3,017)
Deferred income tax benefit recognized in profit loss accounts	135	949
Income tax expense	(3,001)	(2,068)

Azerbaijani legal entities have to file individual corporate income tax declarations. Standard corporate income tax rate for companies (including banks) is 20% for 2025 and 2024.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	Year ended December 31, 2025	Year ended December 31, 2024
Profit before income tax	14,560	9,718
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	(2,912)	(1,944)
Tax effect of permanent differences	(89)	(124)
Income tax expense	(3,001)	(2,068)

Deferred income tax assets and liabilities as at December 31, and their movements for the respective years comprise:

	2023	Origination and reversal of temporary differences in statement of profit or loss and other comprehensive income	2024	Origination and reversal of temporary differences in statement of profit or loss and other comprehensive income	2025
Tax effect of deductible temporary differences					
Lease liabilities	1,125	(56)	1,069	(92)	977
Other liabilities	196	297	493	441	934
Intangible assets	110	15	125	18	143
Deferred income tax assets	1,431	256	1,687	367	2,054
Loans to customers	(2,380)	697	(1,683)	(40)	(1,723)
Right-of-use assets	(1,079)	83	(996)	105	(891)
Amount due to customers	-	23	23	(28)	(5)
Property and equipment	-	1	1	(89)	(88)
Amounts due to credit institutions	(19)	19	-	-	-
Other assets	303	(84)	219	(219)	-
Amounts due from credit institutions	(10)	(46)	(56)	39	(17)
Deferred income tax liabilities	(3,488)	753	(2,735)	(232)	(2,724)
Net deferred income tax liabilities	(1,754)	949	(805)	135	(670)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (Figures in tables are in thousands of Azerbaijani manats)

13. Other assets and liabilities

Other assets comprise:

	December 31, 2025	December 31, 2024
Amounts in the course of settlement	1,075	1,661
Other financial receivables	120	19
Total other financial assets	1,195	1,680
Tax prepayments	929	346
Prepayments for services and other prepayments	736	369
Repossessed collateral	646	2,175
Prepayment for purchase of property, equipment and intangible assets	282	282
Total other non-financial assets	2,593	3,172
Other assets	3,788	4,852

Other liabilities comprise:

	December 31, 2025	December 31, 2024
Funds in settlement	2,753	3,544
Derivative financial liability*	1,067	-
Payable for professional services	9	6
Total other financial liabilities	3,829	3,550
Payable to employees	5,755	4,885
Taxes payable	2,415	1,064
Provision for legal claims	327	-
Provision for credit-related commitments	97	101
Deferred income	59	491
Total other non-financial liabilities	8,653	6,541
Other liabilities	12,482	10,091

The table below shows the fair value of derivative financial instruments together with their notional amounts.

	December 31, 2025			December 31, 2024		
	Notional amount	Fair values		Notional amount	Fair values	
<i>Foreign exchange contracts</i>		Asset	Liability		Asset	Liability
Forward – foreign	27,738	-	1,012	-	-	-
Forward – local	27,014	-	55	-	-	-
Total derivative liability		-	1,067		-	-

Forwards

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

Swaps

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (Figures in tables are in thousands of Azerbaijani manats)

14. Amounts due to banks and other credit institutions

Amounts due to banks and other credit institutions comprise:

	December 31, 2025	December 31, 2024
Amount due to Azerbaijan Mortgage and Credit Guarantee Fund	64,104	56,482
Current accounts of other banks	9,867	18,563
Loans from Azerbaijan Business Development Fund	6,080	4,775
REPO agreements with resident financial institutions	-	12,087
Amounts due to banks and other credit institutions	80,051	91,907

As at December 31, 2025, accrued interest expenses included in amounts due to banks and other credit institutions amounted to AZN 317 thousand (December 31, 2024: AZN 304 thousand).

As at December 31, 2025, interest expenses and interest paid on amounts due to banks and other credit institutions amounted to AZN 2,231 thousand and AZN 2,218 thousand respectively (December 31, 2024: AZN 1,989 thousand and AZN 1,889 thousand).

In 2016, the Bank signed a credit agreement with the Azerbaijan Mortgage Fund for granting long-term mortgage loans to individuals. Name of the fund was changed to Azerbaijan Mortgage and Credit Guarantee Fund in 2018. Under this program, funds are made available to the Bank at interest rates between 1% and 4% p.a. (December 31, 2024: 1.0% and 4.0% p.a.) and mature in 2025-2055 (December 31, 2024: 2024-2048). The Bank is obliged to make these funds to issue loans to eligible borrowers at rates not higher than 4.0% and 8.0% p.a.

In estimating the discount rates for borrowed funds from the Azerbaijan Business Development Fund and the Agrarian Credit and Development Agency the Bank considers this market as a separate market from other commercial borrowing businesses as these loans are issued to the whole banking sector of Azerbaijan at the same terms, purposes, conditions and credit risk exposures.

Current accounts of other banks include accounts in amount of AZN 9,845 thousand (December 31, 2024: AZN 18,563 thousand) from the Parent.

In 2021, the Bank signed a credit agreement with the Azerbaijan Business Development Fund, a program under the Ministry of Economy of the Republic of Azerbaijan, for financing of small and medium-sized enterprises. Under this program, funds are made available to the Bank at an interest rate of 1.0% p.a. and mature up to 2030. The Bank uses these funds to issue loans to eligible borrowers at rates not higher than 7.0% p.a.

15. Amounts due to customers

The amounts due to customers comprise:

	December 31, 2025	December 31, 2024
Current accounts	30,757	51,135
Term deposits	71,360	63,348
Amounts due to customers	102,117	114,483
Held as security against guarantees and letters of credit (Note 17)	-	-

As at December 31, 2025, customer accounts of AZN 25,935 thousand or 25% (December 31, 2024: AZN 43,473 thousand or 38%) were due to 10 (December 31, 2024: ten) largest customers.

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The average interest rate on term deposits of individual customers outstanding as at December 31, 2025 is 10.80% (December 31, 2024: 10.25% p.a.) while the average interest rate on term deposits of legal entities outstanding as at December 31, 2024 was 9.8% (December 31, 2024: 7% p.a.).

As at December 31, 2025, accrued interest expenses included in amounts due to customers amounted to AZN 914 thousand (December 31, 2024: AZN 1,144 thousand).

As at December 31, 2025 deposits secured by the Azerbaijan Deposit Insurance Fund included in current accounts and deposits from customers in the amount of AZN 70,885 thousand (December 31, 2024: AZN 62,648 thousand).

An analysis of amounts due to customers by economic sector is as follows:

	December 31, 2025	December 31, 2024
Individuals	76,633	67,356
Service	18,149	40,804
Trading	4,285	3,633
Manufacturing	1,763	560
Transportation	583	918
Insurance	332	1,005
Public organizations	126	72
Other	246	135
Amounts due to customers	102,117	114,483

16. Equity

As at December 31, 2025 and 2024, the Bank's share capital is represented by ordinary shares which were registered at the State Committee for Securities of the Republic of Azerbaijan on December 29, 2017, thus, authorized, issued and fully paid up capital comprised of 1,579,075,000 ordinary shares with a nominal amount of 0.2 AZN per ordinary share. Each ordinary share carries one vote.

In accordance with Azerbaijani legislation, the shareholders of the Bank should have the following rights: elect and be elected to its management and executive bodies, collect information related to the activity of the Bank, familiarize with annual reports and accounts once a year, request holding the General Meeting of Shareholders, request amendments to the agenda of the General Meeting of Shareholders of the Bank, request audit of the activity of the Bank and in case of termination of Bank's activity, receive a distribution of Bank's assets remained after settlements with creditors and payment of calculated but unpaid dividends.

17. Commitments and contingencies

Operating environment

The Bank's operations are conducted in the Republic of Azerbaijan. The Bank is exposed to the economic and financial markets of Azerbaijan, which display characteristics of an emerging market. The legal, tax, and regulatory frameworks continue to develop 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 global economy continued to adjust during 2025 following earlier disruptions to supply chains, geopolitical tensions related to the conflict between the Russian Federation and Ukraine and changes in global demand patterns. Inflationary pressures moderated compared to prior years, although commodity prices remained sensitive to geopolitical developments and shifts in global trade flows.

During 2025, the Azerbaijani economy continued to demonstrate overall macroeconomic stability, supported by government-led economic reforms, a stable exchange rate regime, and adequate foreign exchange reserves.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(Figures in tables are in thousands of Azerbaijani manats)*

According to data, Azerbaijan's GDP in 2025 amounted to AZN 129.1 billion (USD 75.9 billion), representing a 1.4% increase compared to 2024. Value added in the oil and gas sector decreased by 1.6%, while value added in the non-oil sector increased by 2.7%.

During January-December 2025, Azerbaijan's foreign trade turnover amounted to USD 43.8 billion. Exports of goods accounted for USD 22.6 billion, while imports of goods accounted for USD 21.2 billion, resulting in a positive trade balance of USD 1.5 billion.

According to the Central Bank of the Republic of Azerbaijan (CBAR), the consumer price index (CPI) for the period January-December 2025 was 105.6% compared to the same period of the previous year. The CBAR continued its efforts to manage monetary conditions and maintain the stability of the Azerbaijani manat. The policy rate was adjusted in response to global inflation trends with the refinancing rate set at 6.75% as of December 31, 2025 (December 31, 2024: 7.25%).

As at December 31, 2025 Azerbaijan's strategic foreign exchange reserves amounted to approximately USD 83.5 billion, compared to USD 71 billion at December 31, 2024, reflecting a significant increase that supported the stability of the Azerbaijani manat and overall macroeconomic resilience.

By the end of December 2025, number of active plastic cards increased to a historic high of 21,980 thousand compared to 19,899 thousand in 2024.

Fitch Ratings affirmed Azerbaijan's long term foreign currency credit rating at 'BBB' with a Stable Outlook in 2025, reflecting strong fiscal performance, robust external balances, and substantial sovereign assets.

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. Management is unable to predict all developments in the economic environment that could impact the Bank's operations and, consequently, cannot determine what effect, if any, they could have on the financial position of the Bank.

In February 2022, due to the conflict between the Russian Federation and Ukraine, numerous sanctions were announced by the majority of Western countries against the Russian Federation. A number of countries have and continue to impose sanctions against the Russian government entities, state-owned enterprises and entities and individuals linked to Russia anywhere in the world including "Bank VTB" PJSC (the Russian Federation) and "Bank VTB (Azerbaijan)" OJSC.

The main impact of the imposed sanctions affected the Bank's functionality on transactions with the US dollar and Euro, as well as restrictions on the Bank's payment cards outside the Republic of Azerbaijan and blockage of the SWIFT system.

In order to minimize the negative impact of the sanctions on the Bank's operations, the Bank implemented the FMTS system (Financial Message Transfer System) which is considered as an alternative to the SWIFT system. The FMTS system makes money transfer possible between the Russian Federation and countries which are connected to this system. Furthermore, the Bank has a "Transit" system in place, which also allows transfer of funds between members of the VTB Group. The system of urgent money transfers ("Contact") is in active mode and has not been blocked. Individual customers can transfer funds from Azerbaijan to the CIS countries and vice versa by using the "Contact" system.

Due to the termination of payment card servicing by Visa and Mastercard, plastic card operations abroad are no longer possible. However, the cards are functioning within the borders of the Republic of Azerbaijan.

The Bank expects that the inflows of funds from the Parent's customers will continue. As part of the normal course of business, considerable financial inflows are expected from local entrepreneurs with businesses in the Russian Federation.

The Bank conducts its operations predominantly in Azerbaijan. The Bank's exposure to European and US financial markets is insignificant.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (Figures in tables are in thousands of Azerbaijani manats)

Legal

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

Taxation

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. The last tax audit of the Bank covered the period from 2018 to 2021.

Management’s interpretation of the relevant legislation as at December 31, 2025 is appropriate and the Bank’s tax, currency and customs positions will be sustained.

Commitments and contingencies

As at December 31, the Bank’s commitments and contingencies comprised the following:

<i>Credit-related commitments</i>	December 31, 2025	December 31, 2024
Guarantees	17,305	11,236
Undrawn loan commitments	4,957	9,618
Less: provisions for ECL for credit-related commitments	(97)	(101)
Commitments and contingencies (before deducting collateral)	22,165	20,753
Less: cash held as security against guarantees and letters of credit (Note 15)	-	-
Commitments and contingencies	22,165	20,753

An analysis of changes in the ECLs during the year ended December 31, 2025 is as follows:

<i>Financial guarantees</i>	Stage 1	Stage 2	Stage 3	Total
ECLs as at January 1, 2025	70	-	-	70
New exposures	87	-	-	87
Exposures derecognized or matured	(64)	-	-	(64)
Changes to models and inputs used for ECL	(6)	-	-	(6)
At December 31, 2025	87	-	-	87

<i>Undrawn loan commitments</i>	Stage 1	Stage 2	Stage 3	Total
ECLs as at January 1, 2025	31	-	-	31
New exposures	1	-	-	1
Exposures derecognized or matured	(25)	-	-	(25)
New remeasurement of ECL	3	-	-	3
At December 31, 2025	10	-	-	10

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An analysis of changes in the ECLs during the year ended December 31, 2024 is as follows:

<i>Financial guarantees</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECLs as at January 1, 2024	175	-	-	175
New exposures	70	-	-	70
Exposures derecognized or matured	(161)	-	-	(161)
Changes to models and inputs used for ECL	(14)	-	-	(14)
At December 31, 2024	70	-	-	70

<i>Undrawn loan commitments</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECLs as at January 1, 2024	24	1	-	25
New exposures	2	-	-	2
Exposures derecognized or matured	(3)	-	-	(3)
Transfers to stage 1	1	(1)	-	-
New remeasurement of ECL	7	-	-	7
At December 31, 2024	31	-	-	31

Expected credit loss allowance on credit-related commitments is recorded within other non-financial liabilities balance.

Compliance with the CBAR ratios

The CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at December 31, 2025, the Bank was in compliance with these ratios.

18. Credit loss reversal and other impairment provisions

The table below shows the ECL reversal/(charges) on financial instruments recorded in the statement of profit or loss and other comprehensive income for the year ended December 31, 2025:

	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Loans to customers	8	(257)	(810)	3,850	2,783
Amounts due from credit institutions	6	(32)	-	-	(32)
Credit loss (charge)/reversal on financial assets		(289)	(810)	3,850	2,751
Financial guarantees	17	(17)	-	-	(17)
Undrawn loan commitments	17	21	-	-	21
Credit-related commitments		4	-	-	4
Total credit loss reversal		(285)	(810)	3,850	2,755

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss and other comprehensive income for the year ended December 31, 2024:

	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Loans to customers	8	(122)	863	3,929	4,670
Amounts due from credit institutions	6	15	-	-	15
Credit loss reversal on financial assets		(107)	863	3,929	4,685
Financial guarantees	17	105	-	-	105
Undrawn loan commitments	17	(6)	-	-	(6)
Credit-related commitments		99	-	-	99
Total credit loss reversal		(8)	863	3,929	4,784

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19. Net interest income

Net interest income comprises:

	Year ended December 31, 2025	Year ended December 31, 2024 (Reclassified)
Interest income on loans to customers	32,114	27,739
Interest income on cash and cash equivalents	7,052	2,417
Interest income on investment securities	1,203	1,906
Interest income on guarantees	340*	298*
Interest income on financial assets recorded at amortized cost	40,709	32,360
Interest expense on due to customers	(7,596)	(6,599)
Interest expense on due to credit institutions	(2,231)	(1,989)
Interest expense on lease liabilities	(530)	(486)
Interest expense on financial liabilities recorded at amortized cost	(10,357)	(9,074)
Net interest income	30,352	23,286

* During the year ended December 31, 2025, the Management detected certain errors and made certain reclassifications in the financial statements for the year ended December 31, 2024.

20. Fee and commission income and expense

Fee and commission income and expense comprises:

	Year ended December 31, 2025	Year ended December 31, 2024 (Reclassified)
Settlements operations	3,188	2,172
Plastic card operations	889	247
Agency fee	314	305
Cash operations	196	237
Consulting and expert operations	18	38
Fee and commission income	4,605	2,999
Agency fee	(1,071)	(1,184)
Plastic card operations	(185)	(196)
Settlements operations	(188)	(130)
Cash operations	(82)	(88)
Fee and commission expense	(1,526)	(1,598)

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21. Operating expenses

Operating expenses comprise:

	Year ended December 31, 2025	Year ended December 31, 2024
Salaries and related benefits	(17,173)	(17,229)
Social security costs	(2,810)	(2,813)
Other employment expenses	(447)	(465)
Personnel expenses	(20,430)	(20,507)
Depreciation and amortization	(3,351)	(2,784)
Software cost	(1,264)	(1,213)
Marketing and advertising	(1,155)	(781)
Legal and consultancy	(782)	(385)
Change in fair value of repossessed collateral	(633)	(1,270)
Deposit insurance	(497)	(430)
Representative expenses	(466)	(512)
Occupancy and rent	(389)	(383)
Communication expenses	(342)	(388)
Security expenses	(278)	(283)
Transportation cost	(230)	(168)
Repair and maintenance of property and equipment	(189)	(223)
Office supplies	(188)	(172)
Utilities expenses	(138)	(121)
Business and trip expenses	(109)	(174)
Operating taxes	(99)	(44)
Charity expenses	(53)	(22)
Others	(292)	(469)
Operating expenses	(10,455)	(9,822)
Total operating expenses	(30,885)	(30,329)

22. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, market risk and operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Bank's Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Supervisory Board

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

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

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Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk-related procedures to ensure an independent control process. In addition, the Risk Management Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank.

Risk Controlling

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business group has a decentralized unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with the management and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank, as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of market limits and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

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The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 8.

Impairment assessment

The Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The <i>Probability of Default</i> is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
EAD	The <i>Exposure at Default</i> is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

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LGD The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represents the ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognized, the Bank recognizes an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECL.
- POCI: Purchased or originated credit-impaired (POCI) assets are financial assets that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECL are only recognized or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers amounts due from credit institutions defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default;
- The borrower is deceased;
- If the borrower's status is "PD" (Problematic Delinquency);
- A material decrease in the borrower's turnover or the loss of a major customer;
- A covenant breach not waived by the Bank;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy;
- Debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties.

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It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Internal rating and PD estimation process

The Bank's independent Credit Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its corporate and small and medium business customers are rated from 1 to 100 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behavior. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward-looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank analyses publicly available information such as financial information and other external data, e.g., the external ratings.

Corporate and small business lending

For corporate loans, the borrowers are assessed by specialized credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realized and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., a GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the Bank's performance.

The complexity and granularity of the rating techniques vary based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and residential mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with residential mortgages and some of the less complex small business lending are primarily rated by days past due. Other key input into the models is GDP growth.

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The Bank’s internal credit rating grades are as follows:

<i>Credit risk grades</i>	<i>Description</i>
High grade	Acceptable risk level assets by internal probability of default calculation viewed as target segment by the Bank in context of loan portfolio growth. Specific lending transactions could be ranked in this category on the basis of expected loss assessment (as the basic parameter of quantitative evaluation of risk in this segment). High grade is generally attached to counterparties with excellent financial performance or sovereign risk, having no changes in the terms and conditions of loan agreements and no overdue in principal and interest.
Standard grade	Higher-level risk assets ranked untargeted by the Bank in context of new loans, by internal probability of default calculation. Standard grade is generally attached to counterparties with stable financial performance, having no changes in the terms and conditions of loan agreements and overdue in principal and interest up to 30 days.
Sub-standard grade	High-risk assets exposed to substantial credit risk factors or assets ranked unacceptable by the Bank in context of new loans, by internal probability of default calculation. This category may also include loans the Bank was forced to restructure. Such loans are currently serviced in accordance with the schedule but criteria for Default status rescinding for them were not yet met because not enough time has passed since restructuring or significant part of loan was not yet repaid under the terms of restructured loan. Standard grade is generally attached to counterparties with satisfactory financial performance, having changes in the terms and conditions of loan agreements and no overdue in principal and interest.
Impaired	The Bank defines non-performing loans (NPL) as lifetime ECL credit-impaired financial assets with contractual principal and (or) interest payments overdue more than 90 days and POCI loans with principal and (or) interest payments becoming overdue more than 90 days after the date of initial recognition. Loans with no contractual payments until maturity, grace period on principal and or interest payments, as well as restructured loans are not considered NPL unless amounts due contractually become more than 90 days overdue. Impaired grade is generally attached to counterparties with unsatisfactory financial performance, having changes in the terms and conditions of loan agreements and overdue in principal and interest.

It is the Bank’s policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank’s rating policy. The attributable risk ratings are assessed and updated regularly.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client’s ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EAD by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of the Bank’s models.

Loss given default

For corporate lending assets, the LGD values are assessed at least quarterly by account managers and reviewed and approved by the Bank’s credit risk department.

The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held.

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The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segments of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12m ECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. In certain cases, the Bank may also consider that events explained in the “Definition of default” section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

Depending on the factors below, the Bank calculates ECL either on a collective or on an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

- Stage 3 assets, regardless of the class of financial assets;
- Stage 3 corporate lending portfolio;
- The treasury and interbank relationships (such as amounts due from credit institutions, cash equivalents and debt investment securities at Amortized cost and FVOCI);
- Exposures that have been classified as POCI when the original loan was derecognized and a new loan was recognized as a result of a credit-driven debt restructuring;
- If the borrower’s status is “PD” (Problematic Delinquency).

Asset classes where the Bank calculates ECL on a collective basis include:

- The smaller and more generic balances of the Bank’s small business lending;
- Stage 1, 2 and 3 retail mortgages and consumer lending and Stage 1 and Stage 2 corporate lending portfolio;
- Purchased POCI exposures managed on a collective basis.

The Bank groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example, internal grade, overdue bucket, product type, loan-to-value ratios, or borrower’s industry.

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Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth;
- Inflation;
- Central Bank base rates;
- Foreign exchange rates;
- Real estate price.

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines (gross) in the statement of financial position, based on the Bank’s credit rating system.

December 31, 2025	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	5	Stage 1	34,318	1,189	-	-	35,507
Amounts due from credit institutions	6	Stage 1	-	7,173	-	-	7,173
Investment securities	7	Stage 1	10,347	-	-	-	10,347
Loans to customers:	8						-
		Stage 1	-	47,287	-	-	47,287
		Stage 2	-	-	2,326	-	2,326
- Small business lending		Stage 3	-	-	-	4,578	4,578
		Stage 1	-	9,592	-	-	9,592
		Stage 2	-	-	385	-	385
- Corporate lending		Stage 3	-	-	-	8,112	8,112
		Stage 1	-	165,467	-	-	165,467
		Stage 2	-	-	2,139	-	2,139
- Consumer lending		Stage 3	-	-	-	10,174	10,174
Undrawn loan commitments	17	Stage 1	-	4,957	-	-	4,957
Financial guarantees	17	Stage 1	-	17,305	-	-	17,305
Other financial assets	13	Stage 1	-	1,195	-	-	1,195
Total			44,665	254,165	4,850	22,864	326,544

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December 31, 2024	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	5	Stage 1	14,469	19,673	-	-	34,142
Amounts due from credit institutions	6	Stage 1	-	8,160	-	-	8,160
Investment securities	7	Stage 1	27,331	-	-	-	27,331
Loans to customers:	8						
		Stage 1	-	46,595	-	-	46,595
		Stage 2	-	-	2,048	-	2,048
- Small business lending		Stage 3	-	-	-	5,981	5,981
		Stage 1	-	21,955	-	-	21,955
		Stage 2	-	-	-	-	-
- Corporate lending		Stage 3	-	-	-	10,054	10,054
		Stage 1	-	148,894	-	-	148,894
		Stage 2	-	-	1,542	-	1,542
- Consumer lending		Stage 3	-	-	-	7,341	7,341
Undrawn loan commitments	17	Stage 1	-	9,618	-	-	9,618
Financial guarantees	17	Stage 1	-	11,236	-	-	11,236
Other financial assets	13	Stage 1	-	1,680	-	-	1,680
Total			41,800	267,811	3,590	23,376	336,577

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers. ECL for financial guarantees and letters of credit is assessed in a similar manner as for loans.

The geographical concentration of the Bank's financial assets and liabilities is set out below:

	December 31, 2025				December 31, 2024			
	Azerbaijan	OECD	CIS and other foreign banks	Total	Azerbaijan	OECD	CIS and other foreign banks	Total
Assets								
Cash and cash equivalents	43,045	-	1,188	44,233	21,160	-	19,674	40,834
Mandatory reserve with the CBAR	5,746	-	-	5,746	6,384	-	-	6,384
Amounts due from credit institutions	-	-	7,173	7,173	-	-	8,160	8,160
Investment securities	10,347	-	-	10,347	27,331	-	-	27,331
Loans to customers	225,308	-	-	225,308	219,524	-	-	219,524
Other financial assets	1,195	-	-	1,195	1,680	-	-	1,680
	285,641	-	8,361	294,002	276,079	-	27,834	303,913
Liabilities								
Amounts due to banks and other credit institutions	(70,206)	-	(9,845)	(80,051)	(73,344)	-	(18,563)	(91,907)
Amounts due to customers	(72,377)	-	(29,740)	(102,117)	(82,513)	-	(31,970)	(114,483)
Lease liabilities	(4,998)	-	-	(4,998)	(5,244)	-	-	(5,244)
Other financial liabilities	(3,829)	-	-	(3,829)	(3,550)	-	-	(3,550)
	(151,410)	-	(39,585)	(190,995)	(164,651)	-	(50,533)	(215,184)
Net assets	134,231	-	(31,224)	103,007	111,428	-	(22,699)	88,729

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

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The Bank maintains a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Bank maintains a cash deposit (mandatory reserve) with the CBAR, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the CBAR. The CBAR requires banks to maintain instant liquidity ratio of more than 30%. As at December 31, these ratios were as follows:

	December 31, 2025 (unaudited)	December 31, 2024 (unaudited)
Instant Liquidity Ratio	113.61%	56.62%

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at December 31, based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

As at December 31, 2025	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities					
Amounts due to banks and other credit institutions	10,471	1,469	14,017	69,950	95,907
Amounts due to customers	37,042	37,052	35,533	203	109,830
Lease liabilities	270	776	4,138	2,180	7,364
Other financial liabilities	3,829	-	-	-	3,829
Total undiscounted financial liabilities	51,612	39,297	53,688	72,333	216,930

As at December 31, 2024	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities					
Amounts due to banks and other credit institutions	30,934	37	4,956	56,011	91,938
Amounts due to customers	58,438	28,696	38,132	207	125,473
Lease liabilities	234	703	4,689	1,936	7,562
Other financial liabilities	3,550	-	-	-	3,550
Total undiscounted financial liabilities	93,156	29,436	47,777	58,154	228,523

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2025	22,262	-	-	-	22,262
2024	20,854	-	-	-	20,854

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

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The Bank’s capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. There is a significant concentration as at December 31, 2025 of deposits from individuals and entities that represent about 67% of total portfolio (December 31, 2024: 46%) in the period of less than one year. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. The Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realize its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the legislation of the Republic of Azerbaijan, the Bank is obliged to repay such deposits upon demand of a depositor.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges. The Bank classifies exposures to market risk into non-trading portfolios. Non-trading positions are managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the CBAR regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at December 31, 2025 and 2024 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Azerbaijani manat, with all other variables held constant on the statement of comprehensive income (due to the fair value of currency-sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

Currency	2025		2024	
	Increase in currency rate in %	Effect on profit before tax	Increase in currency rate in %	Effect on profit before tax
USD	10%	87	10%	379
RUB	10%	126	10%	(2,487)
EUR	10%	(5)	10%	8
GBP	10%	-	10%	-

Currency	2025		2024	
	Decrease in currency rate in %	Effect on profit before tax	Decrease in currency rate in %	Effect on profit before tax
USD	(10%)	(87)	(10%)	(379)
RUB	(10%)	(126)	(10%)	2,487
EUR	(10%)	5	(10%)	(8)
GBP	(10%)	-	(10%)	-

Operational risk

Operational risk is the risk of loss arising from system 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 Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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23. Fair value measurements

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

		<i>Fair value measurement using</i>			
	<i>Date of valuation</i>	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	<i>Total</i>
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2025	44,233	-	-	44,233
Amounts due from credit institutions	December 31, 2025	-	-	7,173	7,173
Investment securities	December 31, 2025	-	10,347	-	10,347
Loans to customers	December 31, 2025	-	64,448	160,860	225,308
Other financial assets	December 31, 2025	-	-	1,195	1,195
Liabilities for which fair values are disclosed					
Amounts due to banks and other credit institutions	December 31, 2025	-	64,104	15,947	80,051
Amounts due to customers	December 31, 2025	-	-	102,117	102,117
Other financial liabilities	December 31, 2025	-	-	2,762	2,762
Liabilities measured at fair value					
Derivative financial liabilities	December 31, 2025	-	-	1,067	1,067

		<i>Fair value measurement using</i>			
	<i>Date of valuation</i>	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	<i>Total</i>
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2024	40,834	-	-	40,834
Amounts due from credit institutions	December 31, 2024	-	-	8,160	8,160
Investment securities	December 31, 2024	-	27,331	-	27,331
Loans to customers	December 31, 2024	-	56,482	163,042	219,524
Other financial assets	December 31, 2024	-	-	1,680	1,680
Liabilities for which fair values are disclosed					
Amounts due to banks and other credit institutions	December 31, 2024	-	56,482	35,425	91,907
Amounts due to customers	December 31, 2024	-	-	114,483	114,483
Other financial liabilities	December 31, 2024	-	-	3,550	3,550

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Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank’s financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	December 31, 2025			December 31, 2024		
	Carrying value	Fair value	Unrecognized gain/(loss)	Carrying value	Fair value	Unrecognized gain/(loss)
Assets						
Cash and cash equivalents	44,233	44,233	-	40,834	40,834	-
Amounts due from credit institutions	7,173	7,173	-	8,160	8,160	-
Investment securities	10,347	10,347	-	27,331	27,331	-
Loans to customers	225,308	225,308	-	219,524	219,524	-
Other financial assets	1,195	1,195	-	1,680	1,680	-
Liabilities						
Amounts due to banks and other credit institutions	80,051	80,051	-	91,907	91,907	-
Amounts due to customers	102,117	102,117	-	114,483	114,483	-
Other financial liabilities	2,762	2,762	-	3,550	3,550	-
			-			-

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets 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 and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to banks and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

24. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 22 “Risk management” for the Bank’s contractual undiscounted repayment obligations and how management addresses the negative maturity mismatch below for within one year.

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	December 31, 2025			December 31, 2024		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Cash and cash equivalents	44,233	-	44,233	40,834	-	40,834
Investment securities	10,347	-	10,347	17,246	10,085	27,331
Mandatory reserves with the CBAR	5,746	-	5,746	6,384	-	6,384
Amounts due from credit institutions	7,173	-	7,173	8,160	-	8,160
Loans to customers	82,005	143,303	225,308	80,391	139,133	219,524
Property and equipment	-	9,437	9,437	-	9,949	9,949
Intangible assets	-	9,603	9,603	-	8,885	8,885
Right-of-use assets	-	4,664	4,664	-	4,978	4,978
Other assets	3,141	647	3,788	2,396	2,456	4,852
Total assets	152,645	167,654	320,299	155,411	175,486	330,897
Amounts due to banks and other credit institutions	10,182	69,869	80,051	30,972	60,935	91,907
Amounts due to customers	101,969	148	102,117	80,149	34,334	114,483
Lease liabilities	888	4,110	4,998	894	4,350	5,244
Deferred income tax liability	-	670	670	-	805	805
Other liabilities	10,853	1,629	12,482	8,543	1,548	10,091
Total liabilities	123,892	76,426	200,318	120,558	101,972	222,530
Net assets	28,753	91,228	119,981	34,853	73,514	108,367

25. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions are as follows:

	2025			2024		
	<i>Parent</i>	<i>Entities under common control</i>	<i>Other related parties</i>	<i>Parent</i>	<i>Entities under common control</i>	<i>Other related parties</i>
Deposits at January 1	-	-	1,494	-	-	81
Deposits received during the year	-	-	400	-	-	1,445
Deposits repaid during the year	-	-	(165)	-	-	(32)
Deposits at December 31	-	-	1,730	-	-	1,494
Current accounts	-	-	861	-	-	104
Cash and cash equivalents	2,460	5	-	14,464	5	-
Amounts due from banks and other credit institutions	7,169	-	-	8,160	-	-
Amounts due to banks and other credit institutions	(9,845)	-	-	(18,563)	-	-
Derivative financial assets	(1,067)	-	-	-	-	-

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The income and expense arising from related party transactions are as follows:

	For the year ended December 31					
	2025			2024		
	<i>Parent</i>	<i>Entities under common control</i>	<i>Other related parties</i>	<i>Parent</i>	<i>Entities under common control</i>	<i>Other related parties</i>
Interest income	5,509	-	148	2,280	-	10
Interest expense	(118)	-	(59)	-	-	37
Net gain on dealing in foreign currencies	(54)	-	2	1,677	-	2

Compensation of key management personnel was comprised of the following:

	2025	2024
Salaries and other benefits	5,117	4,125
Social security costs	577	274
Total key management personnel compensation	5,694	4,399

As at December 31, 2025 key management personnel of the Bank consisted of 5 members (December 31, 2024: 5 members).

26. Changes in liabilities arising from financing activities

	<i>Notes</i>	<i>Repo agreements with financial institutions</i>	<i>Loans due to the CBAR</i>	<i>Total liabilities from financing activities</i>
Carrying amount at December 31, 2023	15	-	2,700	2,700
Redemption		-	(2,700)	(2,700)
Addition		12,087	-	12,087
Carrying amount at December 31, 2024	15	12,087	-	12,087
Redemption		(12,087)	-	(12,087)
Carrying amount at December 31, 2025		-	-	-

27. Capital adequacy

The objectives of management when managing the Bank’s capital are (i) to comply with the capital requirements set by the CBAR, (ii) to safeguard the Bank’s ability to continue as a going concern and (iii) to maintain strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders’ value. Compliance with capital adequacy ratios set by the CBAR is monitored monthly with reports outlining their calculation reviewed and signed by the Bank’s Chairman of the Management Board and Chief Accountant. The other objectives of capital management are evaluated annually.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or return capital to shareholders. No changes were made in the objectives, policies and processes from the previous years.

The CBAR requires each bank or banking group to: (a) hold the minimum level of share capital AZN 50,000; (b) maintain a ratio of total regulatory capital to the risk-weighted assets (the “total capital ratio”) at or above the prescribed minimum of 10.50% (December 31, 2024: 10%) and (c) maintain a ratio of tier 1 capital to the risk-weighted assets (the “Tier 1 capital ratio”) at or above the prescribed minimum of 5.50% (December 31, 2024: 5%).

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As at December 31, 2025 and 2024, the Bank’s capital adequacy ratios, as per reports submitted to the CBAR, were as follows:

	December 31, 2025 (unaudited)	December 31, 2024 (unaudited)
Tier 1 capital	89,491	80,666
Tier 2 capital	10,883	11,585
Total regulatory capital	100,374	92,252
Risk-weighted assets	268,967	279,886
Capital adequacy ratio (Tier 1)	33,28%	28,82%
Capital adequacy ratio (Total Capital)	37,32%	32,96%

28. Events after reporting year

The restrictions over transactions with the US dollar and Euro, as well as blockage of the SWIFT system, are still valid.

After the reporting period, an armed conflict involving Iran escalated in the region. Management is closely monitoring the situation, which could impact regional stability, trade flows and global energy markets. No conditions existed at the reporting date that would require adjustment to the financial statements.