

**“RABITABANK”
OPEN JOINT-STOCK COMPANY**

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

“RABITABANK” OPEN JOINT-STOCK COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Shareholders, Supervisory Board and Management Board of "Rabitabank" Open Joint-Stock Company:

Opinion

We have audited the consolidated financial statements of "Rabitabank" Open Joint-Stock Company (the "Bank") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at December 31, 2025 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of material accounting policy information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the audit of the Consolidated Financial Statements section of our report. We are independent of the Group 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.

Key Audit Matter

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

The key audit matter

Allowance for expected credit losses on loans to customers

Loans to customers represent 66% of total assets as at December 31, 2025 and are stated net of allowance for expected credit losses ("ECL") that are estimated on a regular basis and are sensitive to the assumptions used.

The estimation of expected credit losses requires management to apply significant judgments and estimation techniques to determine the probability of default (PD), projected exposure at default (EAD) and loss given default (LGD), considering observed historical data, current economic situation and available forward-looking information.

Credit loss allowance for loans to customers is a key audit matter due to the significance of the balances to the Group's financial position, and the complexity and judgement related to the estimation of ECL under IFRS 9 "Financial Instruments".

Note 3 "Critical Accounting Estimates and Judgments in Applying Accounting Policies", Note 4 "Material Accounting Policy Information", Note 10 "Loans to Customers" and Note 28 "Risk Management, Corporate Governance and Internal Control" to the consolidated financial statements provide detailed information on the allowance.

How was the matter addressed in our audit?

We engaged our experts in financial risk management to analyse the key aspects of the Group's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9 "Financial Instruments".

To analyse the adequacy of professional judgement and assumptions made by management in relation to allowance for ECL estimate we performed the following procedures:

For loans to customers, we tested the correctness of data inputs for PD, LGD and EAD calculation, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into the appropriate stages. We reconciled the input data with supporting documents on a sample basis.

We also assessed whether the disclosures of the consolidated financial statements appropriately reflect the Group's exposure to credit risk.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Baker Tilly Azerbaijan

May 26, 2026

Baku, the Republic of Azerbaijan

“RABITABANK” OPEN JOINT-STOCK COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2025

(In thousands of AZN, unless otherwise indicated)

	Notes	December 31, 2025	December 31, 2024
ASSETS			
Cash and cash equivalents	7	217,552	68,992
Amounts due from banks and other financial institutions	8	81,891	60,146
Investment securities	9	111,380	115,220
Loans to customers	10, 32	904,011	824,653
Assets held for sale		94	186
Property, equipment and intangible assets	11	13,392	10,316
Right-of-use assets	12	8,760	3,818
Deferred income tax assets	26	6,885	4,484
Other assets	13	26,186	35,075
Total assets		1,370,151	1,122,890
LIABILITIES			
Amounts due to banks and other financial institutions	14	75,860	48,242
Amounts due to customers	15, 32	868,225	681,470
Borrowed funds	16	264,613	237,709
Subordinated borrowings	16, 32	8,535	14,590
Debt securities issued	17	8,646	8,619
Lease liabilities	18	9,145	4,080
Other liabilities	19	23,826	24,543
Total liabilities		1,258,850	1,019,253
EQUITY			
Share capital	20	102,047	102,047
Revaluation surplus for buildings	20	4,556	2,136
Net unrealized loss on investment securities		(72)	(72)
Retained earnings/(accumulated deficit)		4,770	(474)
Total equity		111,301	103,637
Total liabilities and equity		1,370,151	1,122,890

On behalf of the Management Board:


Mr. Aydin Huseynov
Chairman of the Management Board

May 26, 2026
Baku, the Republic of Azerbaijan




Mr. Samir Rzayev
Chief Financial Officer

May 26, 2026
Baku, the Republic of Azerbaijan

The notes on pages 8-88 form an integral part of these consolidated financial statements.

“RABITABANK” OPEN JOINT-STOCK COMPANY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2025

(In thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2025	Year ended December 31, 2024
Interest income	21, 32	141,495	117,467
Interest expense	21, 32	(58,632)	(44,383)
Net interest income before expected credit losses on financial assets		82,863	73,084
Charge of expected credit losses on loans to customers	10, 32	(15,405)	(6,263)
Recovery of expected credit losses on amounts due from banks and other financial institutions	8	299	186
Recovery of expected credit losses on investment securities	9	-	650
Recovery/(charge) of expected credit losses on other financial assets	13	273	(557)
Net interest income		68,030	67,100
Fee and commission income	22	33,961	38,977
Fee and commission expense	23	(38,935)	(44,501)
Net fee and commission loss		(4,974)	(5,524)
Net gain on trading in foreign currencies		2,158	4,059
Net (loss)/gain on foreign exchange operations		(594)	8
Other operating income, net		3,923	4,236
Operating income		68,543	69,879
Personnel expenses	24, 32	(40,407)	(36,662)
General and administrative expenses	25	(21,202)	(18,602)
Change in fair value of assets held for sale		532	169
Recovery/(charge) of expected credit losses for guarantees		3,907	(1,095)
Profit before income tax		11,373	13,689
Income tax expense	26	(1,721)	(3,078)
Net profit for the year		9,652	10,611
Other comprehensive income/(loss)			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Net gain resulting on revaluation of buildings	11	3,140	-
Net change in fair value of equity instruments at fair value through other comprehensive income		-	(90)
Income tax recorded directly in other comprehensive income/(loss)	26	(628)	18
Net other comprehensive income/(loss)		2,512	(72)
Total comprehensive income for the year		12,164	10,539
Earnings per share	20	1.93	2.13

On behalf of the Management Board:

Mr. Aydın Hüseynov
Chairman of the Management Board

May 26, 2026
Baku, the Republic of Azerbaijan



Mr. Samir Bəyev
Chief Financial Officer

May 26, 2026
Baku, the Republic of Azerbaijan

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“RABITABANK” OPEN JOINT-STOCK COMPANY

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

(In thousands of AZN, unless otherwise indicated)

	Share capital	Revaluation surplus for buildings	Net unrealized loss on investment securities	Retained earnings/ (accumulated deficit)	Total equity
Balance as at January 1, 2024	<u>102,047</u>	<u>2,228</u>	<u>-</u>	<u>(1,477)</u>	<u>102,798</u>
Net profit for the year	-	-	-	10,611	10,611
Other comprehensive loss for the year	-	-	(72)	-	(72)
Dividends declared	-	-	-	(9,700)	(9,700)
Depreciation for buildings' revaluation surplus	-	(92)	-	92	-
Balance as at December 31, 2024	<u>102,047</u>	<u>2,136</u>	<u>(72)</u>	<u>(474)</u>	<u>103,637</u>
Net profit for the year	-	-	-	9,652	9,652
Other comprehensive income for the year	-	2,512	-	-	2,512
Dividends declared	-	-	-	(4,500)	(4,500)
Depreciation for buildings' revaluation surplus	-	(92)	-	92	-
Balance as at December 31, 2025	<u>102,047</u>	<u>4,556</u>	<u>(72)</u>	<u>4,770</u>	<u>111,301</u>

On behalf of the Management Board:


Mr. Aydin Huseynov
Chairman of the Management Board

May 26, 2026
Baku, the Republic of Azerbaijan


Mr. Samir Rzayev
Chief Financial Officer

May 26, 2026
Baku, the Republic of Azerbaijan

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“RABITABANK” OPEN JOINT-STOCK COMPANY

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

(In thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2025	Year ended December 31, 2024
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		144,130	116,283
Interest paid		(55,433)	(41,129)
Fee and commissions received		33,961	38,977
Fee and commissions paid		(38,935)	(44,501)
Net receipts from foreign exchange operations		2,158	4,059
Personnel expenses paid		(39,451)	(36,362)
General and administrative expenses paid		(15,228)	(12,784)
Other operating income received		3,817	4,342
(Increase)/decrease in operating assets			
Amounts due from banks and other financial institutions		(21,268)	(9,222)
Loans to customers		(95,362)	(132,679)
Assets held for sale		664	868
Other assets		10,116	16,164
Increase/(decrease) in operating liabilities			
Amounts due to banks and other financial institutions		26,934	36,814
Amounts due to customers		183,737	(88,047)
Other liabilities		2,673	(559)
Net cash provided from/(used in) operating activities before income tax paid		142,513	(147,776)
Income tax paid		(6,119)	(5,521)
Cash flows provided from/(used in) operating activities		136,394	(153,297)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, equipment and intangible assets		(3,388)	(3,081)
Proceeds from sale of property, equipment and intangible assets		74	106
Proceeds from sale of/(payments for) investment securities, net		1,910	(14,162)
Cash flows used in investing activities		(1,404)	(17,137)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowed funds	16	81,489	105,692
Repayment of borrowed funds	16	(55,245)	(70,946)
Proceeds from subordinated borrowings	16	-	14,450
Repayment of subordinated borrowings	16	(5,950)	(5,950)
Proceeds from debt securities issued	17	-	9,943
Repayment of debt securities issued	17	-	(1,445)
Repayment of lease liabilities	18	(3,049)	(2,231)
Dividends paid to the shareholders	20	(4,500)	(9,700)
Cash flows provided from financing activities		12,745	39,813
Net increase/(decrease) in cash and cash equivalents		147,735	(130,621)
Effect of changes in exchange rates on cash and cash equivalents		825	(205)
Cash and cash equivalents as at the beginning of the year	7	68,992	199,818
Cash and cash equivalents as at the end of the year		217,552	68,992

On behalf of the Management Board:

Mr. Aydin Huseynov
Chairman of the Management Board

May 26, 2026
Baku, the Republic of Azerbaijan

Mr. Samir Rzayev
Chief Financial Officer

May 26, 2026
Baku, the Republic of Azerbaijan

The notes on pages 8-88 form an integral part of these consolidated financial statements.

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025

(In thousands of AZN, unless otherwise indicated)

1. BACKGROUND

Bank and its principal activity

These consolidated financial statements comprise the financial statements of “Rabitabank” OJSC (the “Bank”) and its subsidiary (together the “Group”).

The Bank was established in the Republic of Azerbaijan as an open joint-stock company in 1993. The Bank’s principal business activity is commercial and retail banking operations within the Republic of Azerbaijan. The Bank’s activities are regulated by the Central Bank of the Republic of Azerbaijan (the “CBAR”). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Azerbaijan.

The Bank’s registered office is 28 May Street 33, AZ 1010, Baku, the Republic of Azerbaijan.

As at December 31, 2025 the Bank has 30 branches and no division (December 31, 2024: 27 branches and 1 division). The majority of its assets and liabilities are located in the Republic of Azerbaijan.

Information about the principal subsidiary included in the consolidated financial statements:

Name	Country of incorporation	Principal activities	Ownership %	
			December 31, 2025	December 31, 2024
“Capital Partners” OJSC	Azerbaijan	Investment	100	100

As at December 31, 2025 and 2024, the Bank also had an investment in a dormant subsidiary, which was not included in the consolidated financial statements.

The Bank is owned by:

	December 31, 2025, %	December 31, 2024, %
Shareholders		
Mr. Rauf Aliyev	38.60	40.60
Ms. Valida Abasova	34.64	34.64
Mr. Zakir Nuriyev	11.48	14.44
Ms. Dilara Nuriyeva	9.11	9.11
Mr. Aslan Khasiyev	6.03	1.07
Other	0.14	0.14
Total	100.00	100.00

Operating environment of the Group

The Group’s operations are conducted in the Republic of Azerbaijan. The Group is exposed to the economic and financial markets of Azerbaijan, which exhibit 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.

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

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.

According to preliminary 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 2025, Azerbaijan’s foreign trade turnover amounted to USD 48.9 billion. Exports of goods accounted for USD 24.5 billion, while imports of goods accounted for USD 24.38 billion, resulting in a positive trade balance of USD 0.12 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, the 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 Group’s operations and, consequently, cannot determine what effect, if any, they could have on the consolidated financial position of the Group.

2. BASIS OF PREPARATION

Statement of compliance

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

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

Going concern

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

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

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

Basis of measurement

The consolidated financial statements are prepared on a historical cost basis except buildings are stated at revalued amounts and certain investment securities designated as at FVOCI are measured at fair value.

Functional and presentation currency

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

At December 31, 2025 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.7000 and EUR 1 = AZN 2.0022 (December 31, 2024: USD 1 = AZN 1.7000 and EUR 1 = AZN 1.7724).

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group’s accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 4;
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 28.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended December 31, 2025 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 28;
- loan impairment estimates – Note 10;
- building revaluation estimates – Note 11;
- estimates of fair values of financial assets and liabilities – Note 33.

4. MATERIAL ACCOUNTING POLICY INFORMATION

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Foreign currency

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

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

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on retranslation of equity securities at FVOCI.

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

Interest

Effective interest rate

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

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

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

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

Amortized cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired, see Note 4.

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

Presentation

Interest income calculated using the effective interest method presented in the consolidated statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortized cost.

Interest expense presented in the consolidated statement of profit or loss and other comprehensive income includes:

- interest on financial liabilities measured at amortized cost.

Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 4(b)).

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

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

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

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

Cash and cash equivalents

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

Financial assets and financial liabilities

Classification

Financial assets

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

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

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

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

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

For debt financial assets measured at FVOCI, gains and losses are recognized in other comprehensive income, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group’s management;

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- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group’s stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

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

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

Reclassification

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

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

Financial liabilities (including deposits by financial institutions and customers, term borrowings and other financial liabilities) are initially measured at fair value, net of transaction costs, and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

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Derecognition

Financial assets

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

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

Any cumulative gain/loss recognized in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities, as explained in Note 4. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

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

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

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Modification of financial assets and financial liabilities

Financial assets

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

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

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

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

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

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion (e.g. inclusion of conversion feature).

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Group further performs qualitative evaluation of whether the modification is substantial.

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

If such a modification is carried out because of financial difficulties of the borrower (see Note 4), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method (see Note 4).

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

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Financial liabilities

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

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

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

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

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

Impairment

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

- financial assets that are debt instruments measured at amortized cost;
- financial guarantee contracts issued; and
- loan commitments issued.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 28).

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized are referred to as ‘Stage 2’ and ‘Stage 3’ financial instruments.

Measurement of ECL

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

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

See also Note 28.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized (see Note 4) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 28).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;

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- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for security because of financial difficulties.

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

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

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

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL is incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognized as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Presentation of allowance for ECL in the consolidated statement of financial position

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

- *financial assets measured at amortized cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-offs

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

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Recoveries of amounts previously written off are included in ‘reversal of expected credit losses on loans to customers’ in the statement of profit or loss and other comprehensive income.

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

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

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

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

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

Offsetting

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

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Loans to customers

‘Loans to customers’ caption in the consolidated statement of financial position include:

- loans to customers measured at amortized cost (see Note 4); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

Investment securities

The ‘investment securities’ caption in the consolidated statement of financial position includes:

- debt investment securities measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- equity investment securities designated as at FVOCI.

Deposits, borrowed funds, subordinated borrowings, and debt securities issued

Deposits, borrowed funds, subordinated borrowings, and debt securities issued are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Group designates them at FVTPL.

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

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

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized in other comprehensive income.

Depreciation

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

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The estimated useful lives are as follows:

Buildings	50 years
Computers	4 years
Furniture and equipment	5-10 years
Vehicles	4 years
Leasehold improvements	Over the term of the contract

Intangible assets

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

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

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised on a straight-line basis 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.

Leases

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

Group as a lessee

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

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

Lease liabilities

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

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

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

Assets held for sale

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

Provisions

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

Financial guarantees and loan commitments

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

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

For other loan commitments the Group recognizes a loss allowance.

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

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Share capital

Ordinary shares

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

Dividends

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

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

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences:

- the initial recognition of assets or liabilities that affects neither accounting nor taxable profit or loss.

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

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

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

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

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due.

5. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Group has adopted all of the applicable new and revised standards and interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for the year ended December 31, 2025.

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

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

6. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

At the date of authorization of these consolidated financial statements, other than the standards and interpretations adopted by the Group in advance of their effective dates, the following standards, interpretations and amendments were issued but not yet effective. The Group 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.

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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.

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.

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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.

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.

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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 company operates.

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

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(In thousands of AZN, unless otherwise indicated)

7. CASH AND CASH EQUIVALENTS

	December 31, 2025	December 31, 2024
Short-term deposits with the CBAR	105,056	10,000
Cash on hand	37,229	36,724
Nostro accounts with the CBAR	25,890	5,646
Nostro accounts with non-resident financial institutions	19,614	8,379
Short-term deposits with non-resident financial institutions	13,605	-
Nostro accounts with resident financial institutions	10,304	8,243
CBAR notes with original maturity of less than 90 days	5,854	-
Total cash and cash equivalents	217,552	68,992

Balances with financial institutions except the CBAR are rated as follows:

	December 31, 2025	December 31, 2024
Rated from AA- to AA+	4,071	-
Rated from A- to A+	13,624	29
Rated from BBB- to BBB+	3,404	3,243
Rated from BB- to BB+	20,208	9,322
Rated from B- to B+	396	2,678
Not rated	1,820	1,350
Total	43,523	16,622

As at December 31, 2025, the Group had no financial institution except the CBAR (December 31, 2024: no financial institution except CBAR), whose balances individually exceeded 10% of equity. The gross value of these balances as at December 31, 2025 was nil (December 31, 2024: nil).

As at December 31, 2025 and 2024, all balances included in cash and cash equivalents are classified as Stage 1 and their ECL was not significant. There were no transfers between stages during the years ended December 31, 2025 and 2024.

8. AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2025	December 31, 2024
Mandatory balances held with the CBAR	46,607	33,223
Blocked accounts with non-resident financial institutions	14,628	4,058
Time deposits with non-resident financial institutions	9,535	1,185
Loans to non-resident financial institutions	5,130	13,653
Loans to resident financial institutions	4,206	6,541
Blocked accounts with resident financial institutions	1,785	1,785
Gross amounts due from banks and other financial institutions	81,891	60,445
Less: allowance for expected credit losses	-	(299)
Net amounts due from banks and other financial institutions	81,891	60,146

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Gross amounts due from banks and other financial institutions except the CBAR are rated as follows:

	December 31, 2025	December 31, 2024
Rated from AA- to AA+	12,546	3,528
Rated from A- to A+	2,049	495
Rated from BBB- to BBB+	1,036	920
Rated from BB- to BB+	6,914	6,898
Rated from B- to B+	8,532	8,541
Not rated	4,207	6,840
Total	35,284	27,222

The credit quality analysis for total amounts due from banks and other financial institutions is presented below:

	December 31, 2025	December 31, 2024
Not overdue	81,891	60,146
Overdue more than 360 days	-	299
Less: allowance for expected credit losses	-	(299)
Total amounts due from banks and other financial institutions	81,891	60,146

As at December 31, 2025, the Group had no financial institution except the CBAR (December 31, 2024: no financial institution except the CBAR), whose balances individually exceeded 10% of equity.

As at December 31, 2025, accrued interest receivable included in amounts due from banks and other financial institutions amounted to AZN 124 (December 31, 2024: AZN 94).

Balances included in the amounts due from banks and other financial institutions are classified as Stage 1 except credit-impaired overdue balances, and their ECL was not significant as at December 31, 2025 (December 31, 2024: not significant). There were no transfers between stages during the years ended December 31, 2025 and 2024.

Analysis of movements in the allowance for expected credit losses is as follows:

	December 31, 2025	December 31, 2024
Balance at the beginning of the year	(299)	(485)
Recovery of expected credit losses	299	186
Balance at the end of the year	-	(299)

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Mandatory reserve with the CBAR

As at December 31, 2025 and 2024 mandatory balances held with the CBAR were AZN 46,607 and AZN 33,223, respectively, which represented the obligatory minimum reserve deposits with the CBAR.

The mandatory reserve deposit is a non-interest-bearing deposit calculated in accordance with regulations issued by the CBAR and whose withdrawal ability is restricted. Reserves are measured in accordance with regulations issued by the CBAR and depend on the level of customer funds attracted.

On November 20, 2023, the CBAR made certain updates on the calculation of mandatory reserves, and financial 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 1,000,000 (AZN 750,000 for foreign currency);
- Whether the proportion of deposits from related parties to total deposits is below than 20%;
- Whether the proportion of Bank-related deposits to total deposits is below than 20%.

Since the Bank’s average deposits from legal entities in local currency and foreign currency are less than AZN 1,000,000 and AZN 750,000, respectively, and both the proportion of deposits from related parties and the segment of Bank-related deposits do not exceed 20% of total deposits, the applicable mandatory reserve rate was 5% for deposits in local currency and 6% for deposits in foreign currency as at December 31, 2025 and 2024.

9. INVESTMENT SECURITIES

	December 31, 2025	December 31, 2024
Investment securities measured at amortized cost - debt instruments	110,804	114,614
Investment securities designated as at FVOCI - equity instruments	<u>576</u>	<u>606</u>
Total investment securities	<u>111,380</u>	<u>115,220</u>

As at December 31, 2025, accrued interest receivable included in investment securities amounted to AZN 815 (December 31, 2024: AZN 2,744).

All investment security balances are in Stage 1 as at December 31, 2025 and 2024, and their ECL was not significant as at December 31, 2025 (December 31, 2024: not significant). There were no transfers between stages during the years ended December 31, 2025 and 2024.

	December 31, 2025	December 31, 2024
Government bonds	103,658	101,533
Corporate bonds	<u>7,146</u>	<u>13,081</u>
Total debt instruments	<u>110,804</u>	<u>114,614</u>

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	December 31, 2025	December 31, 2024
“Azerbaijan Credit Bureau” LLC	250	250
“Baku Stock Exchange” CJSC	240	240
“International Bank of Azerbaijan” OJSC	54	54
“Master Card International”	32	32
“Milli Kart” LLC	-	30
	<u>576</u>	<u>606</u>
Total equity instruments	<u>576</u>	<u>606</u>

Management believes it is unlikely that the fair value at the year-end would differ significantly from the carrying amount as at December 31, 2025 and 2024.

10. LOANS TO CUSTOMERS

	December 31, 2025	% of total gross loans	December 31, 2024	% of total gross loans
Loans to corporate customers				
Corporate loans	<u>257,527</u>	27%	<u>289,042</u>	33%
Total loans to corporate customers	<u>257,527</u>		<u>289,042</u>	
Loans to individual customers				
Cash loans	254,280	27%	218,310	25%
Mortgage loans	185,369	20%	155,963	18%
Micro loans	162,554	17%	125,470	15%
Lombard loans	61,075	6%	47,891	5%
Consumer loans	18,827	2%	22,170	3%
Credit cards	5,082	1%	3,454	1%
Car loans	<u>98</u>	-	<u>149</u>	-
Total loans to individual customers	<u>687,285</u>	100%	<u>573,407</u>	100%
Gross loans to customers	<u>944,812</u>		<u>862,449</u>	
Less: allowance for expected credit losses	<u>(40,801)</u>		<u>(37,796)</u>	
Net loans to customers	<u>904,011</u>		<u>824,653</u>	

As at December 31, 2025, accrued interest receivable included in loans to customers amounted to AZN 7,833 (December 31, 2024: AZN 7,914).

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The following tables show reconciliations from the opening to the closing balances of the loss allowance of loans to customers.

	2025				2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost*								
Balance at January 1	9,990	5,011	22,795	37,796	10,721	1,192	13,318	25,231
Transfer to Stage 1	342	(34)	(308)	-	10	(3)	(7)	-
Transfer to Stage 2	(116)	116	-	-	(431)	439	(8)	-
Transfer to Stage 3	(594)	(4,830)	5,424	-	(4,210)	(1,030)	5,240	-
Net remeasurement of loss allowance	(8,516)	803	14,593	6,880	(8,747)	4,413	(2,050)	(6,384)
New assets originated or purchased	8,525	-	-	8,525	12,647	-	-	12,647
Write-offs	-	-	(17,449)	(17,449)	-	-	(1,064)	(1,064)
Recoveries of assets previously written-off	-	-	2,790	2,790	-	-	5,785	5,785
Unwinding of discount on present value of ECLs	-	-	2,259	2,259	-	-	1,581	1,581
Balance at December 31	9,631	1,066	30,104	40,801	9,990	5,011	22,795	37,796

	2025				2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost-corporate loans*								
Balance at January 1	5,969	4,419	18,956	29,344	7,352	1,049	11,756	20,157
Transfer to Stage 1	93	-	(93)	-	4	-	(4)	-
Transfer to Stage 2	(84)	84	-	-	(70)	72	(2)	-
Transfer to Stage 3	(390)	(4,397)	4,787	-	(2,602)	(776)	3,378	-
Net remeasurement of loss allowance	(4,328)	284	10,420	6,376	(7,726)	4,074	874	(2,778)
New assets originated or purchased	3,699	-	-	3,699	9,011	-	-	9,011
Write-offs	-	-	(14,003)	(14,003)	-	-	(489)	(489)
Recoveries of assets previously written-off	-	-	2,040	2,040	-	-	2,029	2,029
Unwinding of discount on present value of ECLs	-	-	1,654	1,654	-	-	1,414	1,414
Balance at December 31	4,959	390	23,761	29,110	5,969	4,419	18,956	29,344

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	2025				2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost-cash loans*								
Balance at January 1	2,418	333	2,543	5,294	1,888	93	1,219	3,200
Transfer to Stage 1	150	(11)	(139)	-	6	(3)	(3)	-
Transfer to Stage 2	(10)	10	-	-	(153)	154	(1)	-
Transfer to Stage 3	(112)	(275)	387	-	(794)	(165)	959	-
Net remeasurement of loss allowance	(2,476)	224	2,511	259	(930)	254	(955)	(1,631)
New assets originated or purchased	2,837			2,837	2,401	-	-	2,401
Write-offs	-	-	(2,732)	(2,732)	-	-	(214)	(214)
Recoveries of assets previously written-off	-	-	412	412	-	-	1,458	1,458
Unwinding of discount on present value of ECLs	-	-	289	289	-	-	80	80
Balance at December 31	2,807	281	3,271	6,359	2,418	333	2,543	5,294

	2025				2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost-mortgage loans*								
Balance at January 1	167	40	57	264	264	5	31	300
Transfer to Stage 1	33	(23)	(10)	-	-	-	-	-
Transfer to Stage 2	(1)	1	-	-	(40)	40	-	-
Transfer to Stage 3	-	-	-	-	(38)	-	38	-
Net remeasurement of loss allowance	(348)	155	98	(95)	(55)	(5)	(951)	(1,011)
New assets originated or purchased	259			259	36	-	-	36
Write-offs	-	-	(6)	(6)	-	-	(154)	(154)
Recoveries of assets previously written-off	-	-	217	217	-	-	1,092	1,092
Unwinding of discount on present value of ECLs	-	-	23	23	-	-	1	1
Balance at December 31	110	173	379	662	167	40	57	264

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	2025				2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost-micro loans*								
Balance at January 1	1,294	208	930	2,432	745	37	174	956
Transfer to Stage 1	62	-	(62)	-	-	-	-	-
Transfer to Stage 2	(15)	15	-	-	(167)	172	(5)	-
Transfer to Stage 3	(89)	(158)	247	-	(632)	(79)	711	-
Net remeasurement of loss allowance	(1,245)	135	1,554	444	233	78	(638)	(327)
New assets originated or purchased	1,647	-	-	1,647	1,115	-	-	1,115
Write-offs	-	-	(623)	(623)	-	-	(129)	(129)
Recoveries of assets previously written-off	-	-	121	121	-	-	745	745
Unwinding of discount on present value of ECLs	-	-	253	253	-	-	72	72
Balance at December 31	1,654	200	2,420	4,274	1,294	208	930	2,432

	2025				2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost- lombard loans*								
Balance at January 1	29	10	47	86	36	5	27	68
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	(3)	(1)	4	-
Net remeasurement of loss allowance	(41)	(5)	10	(36)	(65)	6	(242)	(301)
New assets originated or purchased	43	-	-	43	61	-	-	61
Write-offs	-	-	(19)	(19)	-	-	(43)	(43)
Recoveries of assets previously written-off	-	-	-	-	-	-	298	298
Unwinding of discount on present value of ECLs	-	-	19	19	-	-	3	3
Balance at December 31	31	5	57	93	29	10	47	86

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(In thousands of AZN, unless otherwise indicated)

	2025				2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost- consumer loans*								
Balance at January 1	98	1	149	248	390	-	31	421
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	(6)	6	-	-	(1)	1	-	-
Transfer to Stage 3	(3)	-	3	-	(90)	(2)	92	-
Net remeasurement of loss allowance	(72)	3	15	(54)	(220)	2	(90)	(308)
New assets originated or purchased	10	-	-	10	19	-	-	19
Write-offs	-	-	(23)	(23)	-	-	(26)	(26)
Recoveries of assets previously written-off	-	-	-	-	-	-	136	136
Unwinding of discount on present value of ECLs	-	-	15	15	-	-	6	6
Balance at December 31	27	10	159	196	98	1	149	248

	2025				2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost- credit cards*								
Balance at January 1	15	-	113	128	44	2	80	126
Transfer to Stage 1	4	-	(4)	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	(51)	(7)	58	-
Net remeasurement of loss allowance	(6)	7	(25)	(24)	18	5	(48)	(25)
New assets originated or purchased	30	-	-	30	4	-	-	4
Write-offs	-	-	(43)	(43)	-	-	(9)	(9)
Recoveries of assets previously written-off	-	-	-	-	-	-	27	27
Unwinding of discount on present value of ECLs	-	-	6	6	-	-	5	5
Balance at December 31	43	7	47	97	15	-	113	128

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

	2025				2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost- car loans*								
Balance at January 1	-	-	-	-	2	1	-	3
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Net remeasurement of loss allowance	-	-	10	10	(2)	(1)	-	(3)
New assets originated or purchased	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Recoveries of assets previously written-off	-	-	-	-	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	-	-	-	-	-	-
Balance at December 31	-	-	10	10	-	-	-	-

* The loss allowance in these tables includes ECL on loan commitments, because the Group does not separately identify the ECL on the loan commitment component from those on the financial instrument component.

Credit quality analysis

The following table sets out information about the credit quality of loans to customers measured at amortized cost as at December 31, 2025 and 2024. Unless specially indicated, the amounts in the table represent gross carrying amounts.

Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 4.

	December 31, 2025			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost – corporate loans				
Not overdue	212,986	4	12,973	225,963
Overdue less than 30 days	10,384	-	1,593	11,977
Overdue 30-89 days	1,946	1,517	1,906	5,369
Overdue 90-179 days	-	-	3,215	3,215
Overdue 180-360 days	-	-	5,397	5,397
Overdue more than 360 days	-	-	5,606	5,606
Total	225,316	1,521	30,690	257,527
Less: Allowance for expected credit losses	(5,975)	(383)	(22,753)	(29,111)
Carrying amount	219,341	1,138	7,937	228,416

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

	December 31, 2024			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost – corporate loans				
Not overdue	228,862	226	3,083	232,171
Overdue less than 30 days	17,976	6	451	18,433
Overdue 30-89 days	112	14,750	2,287	17,149
Overdue 90-179 days	-	-	922	922
Overdue 180-360 days	-	-	1,703	1,703
Overdue more than 360 days	-	-	18,664	18,664
Total	246,950	14,982	27,110	289,042
Less: Allowance for expected credit losses	(5,969)	(4,419)	(18,956)	(29,344)
Carrying amount	240,981	10,563	8,154	259,698

	December 31, 2025			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost – cash loans				
Not overdue	236,179	2	82	236,263
Overdue less than 30 days	13,276	5	134	13,415
Overdue 30-89 days	543	634	394	1,571
Overdue 90-179 days	-	-	1,191	1,191
Overdue 180-360 days	-	-	1,389	1,389
Overdue more than 360 days	-	-	451	451
Total	249,998	641	3,641	254,280
Less: Allowance for expected credit losses	(3,595)	(283)	(2,481)	(6,359)
Carrying amount	246,403	358	1,160	247,921

	December 31, 2024			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost – cash loans				
Not overdue	209,895	-	108	210,003
Overdue less than 30 days	4,127	-	71	4,198
Overdue 30-89 days	25	740	12	777
Overdue 90-179 days	-	4	637	641
Overdue 180-360 days	-	-	981	981
Overdue more than 360 days	-	-	1,710	1,710
Total	214,047	744	3,519	218,310
Less: Allowance for expected credit losses	(2,418)	(333)	(2,543)	(5,294)
Carrying amount	211,629	411	976	213,016

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

	December 31, 2025			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost – mortgage loans				
Not overdue	182,323	143	-	182,466
Overdue less than 30 days	1,914	269	-	2,183
Overdue 30-89 days	204	345	38	587
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	2	2
Overdue more than 360 days	-	-	131	131
Total	184,441	757	171	185,369
Less: Allowance for expected credit losses	(346)	(173)	(143)	(662)
Carrying amount	184,095	584	28	184,707

	December 31, 2024			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost – mortgage loans				
Not overdue	155,435	-	42	155,477
Overdue less than 30 days	95	-	-	95
Overdue 30-89 days	-	247	-	247
Overdue 90-179 days	-	-	99	99
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	45	45
Total	155,530	247	186	155,963
Less: Allowance for expected credit losses	(167)	(40)	(57)	(264)
Carrying amount	155,363	207	129	155,699

	December 31, 2025			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost – micro loans				
Not overdue	152,760	-	39	152,799
Overdue less than 30 days	6,328	11	41	6,380
Overdue 30-89 days	495	511	333	1,339
Overdue 90-179 days	-	4	495	499
Overdue 180-360 days	-	-	795	795
Overdue more than 360 days	-	-	742	742
Total	159,583	526	2,445	162,554
Less: Allowance for expected credit losses	(2,212)	(197)	(1,864)	(4,273)
Carrying amount	157,371	329	581	158,281

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

	December 31, 2024			Total
	Stage 1	Stage 2	Stage 3	
Loans to customers at amortized cost – micro loans				
Not overdue	119,475	-	67	119,542
Overdue less than 30 days	3,927	-	63	3,990
Overdue 30-89 days	30	499	-	529
Overdue 90-179 days	-	-	395	395
Overdue 180-360 days	-	-	443	443
Overdue more than 360 days	-	-	571	571
Total	123,432	499	1,539	125,470
Less: Allowance for expected credit losses	(1,294)	(208)	(930)	(2,432)
Carrying amount	122,138	291	609	123,038

	December 31, 2025			Total
	Stage 1	Stage 2	Stage 3	
Loans to customers at amortized cost – lombard loans				
Not overdue	57,553	-	9	57,562
Overdue less than 30 days	3,334	-	1	3,335
Overdue 30-89 days	56	60	4	120
Overdue 90-179 days	-	-	6	6
Overdue 180-360 days	-	-	13	13
Overdue more than 360 days	-	-	39	39
Total	60,943	60	72	61,075
Less: Allowance for expected credit losses	(34)	(5)	(54)	(93)
Carrying amount	60,909	55	18	60,982

	December 31, 2024			Total
	Stage 1	Stage 2	Stage 3	
Loans to customers at amortized cost – lombard loans				
Not overdue	45,903	-	-	45,903
Overdue less than 30 days	1,720	-	1	1,721
Overdue 30-89 days	10	92	-	102
Overdue 90-179 days	-	-	60	60
Overdue 180-360 days	-	-	52	52
Overdue more than 360 days	-	-	53	53
Total	47,633	92	166	47,891
Less: Allowance for expected credit losses	(29)	(10)	(47)	(86)
Carrying amount	47,604	82	119	47,805

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

	December 31, 2025			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost – consumer loans				
Not overdue	17,291	18	-	17,309
Overdue less than 30 days	1,027	-	158	1,185
Overdue 30-89 days	14	116	-	130
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	44	44
Overdue more than 360 days	-	-	159	159
Total	18,332	134	361	18,827
Less: Allowance for expected credit losses	(41)	(10)	(145)	(196)
Carrying amount	18,291	124	216	18,631

	December 31, 2024			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost – consumer loans				
Not overdue	14,711	-	-	14,711
Overdue less than 30 days	6,971	-	-	6,971
Overdue 30-89 days	-	21	8	29
Overdue 90-179 days	-	-	3	3
Overdue 180-360 days	-	-	371	371
Overdue more than 360 days	-	-	85	85
Total	21,682	21	467	22,170
Less: Allowance for expected credit losses	(98)	(1)	(149)	(248)
Carrying amount	21,584	20	318	21,922

	December 31, 2025			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost – credit cards				
Not overdue	4,970	-	-	4,970
Overdue less than 30 days	15	-	13	28
Overdue 30-89 days	17	2	19	38
Overdue 90-179 days	-	-	7	7
Overdue 180-360 days	-	-	25	25
Overdue more than 360 days	-	-	14	14
Total	5,002	2	78	5,082
Less: Allowance for expected credit losses	(50)	(1)	(46)	(97)
Carrying amount	4,952	1	32	4,985

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

	December 31, 2024			Total
	Stage 1	Stage 2	Stage 3	
Loans to customers at amortized cost – credit cards				
Not overdue	3,325	-	1	3,326
Overdue less than 30 days	4	-	10	14
Overdue 30-89 days	-	7	12	19
Overdue 90-179 days	-	-	9	9
Overdue 180-360 days	-	-	22	22
Overdue more than 360 days	-	-	64	64
Total	3,329	7	118	3,454
Less: Allowance for expected credit losses	(15)	-	(113)	(128)
Carrying amount	3,314	7	5	3,326

	December 31, 2025			Total
	Stage 1	Stage 2	Stage 3	
Loans to customers at amortized cost – car loans				
Not overdue	88	-	-	88
Overdue less than 30 days	-	-	-	-
Overdue 30-89 days	-	-	10	10
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	-	-
Total	88	-	10	98
Less: Allowance for expected credit losses	-	-	(10)	(10)
Carrying amount	88	-	-	88

	December 31, 2024			Total
	Stage 1	Stage 2	Stage 3	
Loans to customers at amortized cost – car loans				
Not overdue	134	-	-	134
Overdue less than 30 days	-	15	-	15
Overdue 30-89 days	-	-	-	-
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	-	-
Total	134	15	-	149
Less: Allowance for expected credit losses	-	-	-	-
Carrying amount	134	15	-	149

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at December 31, 2025:

AZN'000	Gross carrying amount	Loss allowance	Carrying amount	Fair value of collateral held				Total
				Cash and deposits	Precious metals	Real estate	Equipment	
Corporate loans	30,690	(22,753)	7,937	503	-	13,624	5,239	19,366
Cash loans	3,641	(2,481)	1,160	-	2	-	-	2
Mortgage loans	171	(143)	28	-	-	305	-	305
Micro loans	2,445	(1,864)	581	-	22	2,780	2,624	5,426
Lombard loans	72	(54)	18	-	185	-	-	185
Consumer loans	361	(145)	216	110	-	772	36	918
Credit cards	78	(46)	32	78	-	-	-	78
Car loans	10	(10)	-	-	-	-	64	64
Total credit- impaired loans to customers	37,468	(27,496)	9,972	691	209	17,481	7,963	26,344

The following table provides information on collateral securing loans to customers, net of impairment, by types of collateral as at December 31, 2025:

AZN'000	Gross carrying amount	Loss allowance	Carrying amount	Fair value of collateral held				Total
				Cash and deposits	Precious metals	Real estate	Equipment	
Corporate loans	257,527	(29,111)	228,416	2,294	178	356,133	64,012	422,617
Cash loans	254,280	(6,359)	247,921	376	146	1,702	573	2,797
Mortgage loans	185,369	(662)	184,707	-	-	287,681	-	287,681
Micro loans	162,554	(4,273)	158,281	241	4,160	173,811	101,567	279,779
Lombard loans	61,075	(93)	60,982	-	194,327	-	-	194,327
Consumer loans	18,827	(196)	18,631	20,489	-	9,302	36	29,827
Credit cards	5,082	(97)	4,985	1,752	-	320	32	2,104
Car loans	98	(10)	88	-	-	-	394	394
Total loans to customers	944,812	(40,801)	904,011	25,152	198,811	828,949	166,614	1,219,526

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at December 31, 2024:

AZN'000	Gross carrying amount	Loss allowance	Fair value of collateral held					Total
			Carrying amount	Cash and deposits	Precious metals	Real estate	Equipment	
Corporate loans	27,110	(18,956)	8,154	2,343	3,096	19,616	50,920	75,975
Cash loans	3,519	(2,543)	976	-	1	-	1	2
Micro loans	186	(57)	129	-	-	353	-	353
Mortgage loans	1,539	(930)	609	-	67	1,792	2,682	4,541
Lombard loans	166	(47)	119	-	366	-	-	366
Credit cards	467	(149)	318	12	425	1,139	434	2,010
Consumer loans	118	(113)	5	-	-	-	-	-
Car loans	-	-	-	-	-	-	-	-
Total credit-impaired loans to customers	33,105	(22,795)	10,310	2,355	3,955	22,900	54,037	83,247

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

AZN'000	Gross carrying amount	Loss allowance	Fair value of collateral held					Total
			Carrying amount	Cash and deposits	Precious metals	Real estate	Equipment	
Corporate loans	289,042	(29,344)	259,698	7,488	40,889	479,823	198,007	726,207
Cash loans	218,310	(5,294)	213,016	377	186	308	599	1,470
Mortgage loans	155,963	(264)	155,699	-	-	240,970	-	240,970
Micro loans	125,470	(2,432)	123,038	190	5,469	139,599	110,678	255,936
Lombard loans	47,891	(86)	47,805	-	105,619	-	-	105,619
Consumer loans	22,170	(248)	21,922	22,787	449	14,119	457	37,812
Credit cards	3,454	(128)	3,326	1,106	-	-	45	1,151
Car loans	149	-	149	-	-	-	472	472
Total loans to customers	862,449	(37,796)	824,653	31,948	152,612	874,819	310,258	1,369,637

Repossessed collateral

During the year ended December 31, 2025, the Group obtained certain assets by taking possession of collateral for loans to customers with a gross carrying amount of AZN 40 (December 31, 2024: AZN 131).

Significant credit exposures

As at December 31, 2025, the Group had 2 borrower or group of connected borrowers (December 31, 2024: 1) with gross loan balances individually exceeding 10% of equity. The gross value of these loans as at December 31, 2025 was AZN 26,231 (December 31, 2024: AZN 13,523).

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

Key assumptions and judgments for estimating the loan impairment

As at December 31, 2025 and 2024, the Group estimates ECL for significant corporate loans in Stage 3 based on an individual review of each loan and estimation of its future cash flows. This estimate of future cash flows is dependent on factors such as the estimated value of underlying collateral and delay of 12 to 48 months in obtaining proceeds from the foreclosure of collateral. The Group then calculates the net present value of these cash flows using a discount rate which equates to the original effective interest rate of the loan, in order to determine the required amount of ECL.

For the remaining portfolio of loans the Group calculates ECL as described in Note 28, on a collective basis. The key areas of uncertainty and assumptions used in the calculation of the collective impairment are:

- a delay in obtaining proceeds from the foreclosure of collateral;
- a discount for real estates originally appraised value.

Changes in these estimates could affect the expected credit losses. For example, to the extent that the net present value of the estimated cash flow differs by one percent, the expected credit losses on loans to customers as at December 31, 2025 would be AZN 408 lower/higher (December 31, 2024: AZN 378 lower/higher).

“RABITABANK” OPEN JOINT-STOCK COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)**

(In thousands of AZN, unless otherwise indicated)

11. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Computers	Furniture and equipment	Leasehold improvements	Computer software	Vehicles	Total
Cost/revalued amount							
As at January 1, 2024	<u>5,470</u>	<u>6,695</u>	<u>6,787</u>	<u>1,434</u>	<u>1,736</u>	<u>2,325</u>	<u>24,447</u>
Additions	-	861	568	445	513	211	2,598
Disposals	-	(833)	(352)	(19)	-	(511)	(1,715)
As at December 31, 2024	<u>5,470</u>	<u>6,723</u>	<u>7,003</u>	<u>1,860</u>	<u>2,249</u>	<u>2,025</u>	<u>25,330</u>
Additions	267	1,076	538	441	402	-	2,724
Disposals	-	(240)	(123)	(142)	-	(70)	(575)
Effect of revaluation	3,140	-	-	-	-	-	3,140
Cost eliminated on revaluation	(1,587)	-	-	-	-	-	(1,587)
As at December 31, 2025	<u>7,290</u>	<u>7,559</u>	<u>7,418</u>	<u>2,159</u>	<u>2,651</u>	<u>1,955</u>	<u>29,032</u>
Accumulated depreciation and amortization							
As at January 1, 2024	<u>(1,371)</u>	<u>(4,652)</u>	<u>(4,974)</u>	<u>(538)</u>	<u>(933)</u>	<u>(1,371)</u>	<u>(13,839)</u>
Depreciation and amortization for the year	(108)	(960)	(718)	(287)	(274)	(332)	(2,679)
Disposals	-	786	273	19	-	426	1,504
As at December 31, 2024	<u>(1,479)</u>	<u>(4,826)</u>	<u>(5,419)</u>	<u>(806)</u>	<u>(1,207)</u>	<u>(1,277)</u>	<u>(15,014)</u>
Depreciation and amortization for the year	(108)	(1,006)	(719)	(378)	(249)	(308)	(2,768)
Disposals	-	226	117	142	-	70	555
Accumulated depreciation eliminated on revaluation	1,587	-	-	-	-	-	1,587
As at December 31, 2025	<u>-</u>	<u>(5,606)</u>	<u>(6,021)</u>	<u>(1,042)</u>	<u>(1,456)</u>	<u>(1,515)</u>	<u>(15,640)</u>
Carrying amount							
As at December 31, 2025	<u>7,290</u>	<u>1,953</u>	<u>1,397</u>	<u>1,117</u>	<u>1,195</u>	<u>440</u>	<u>13,392</u>
As at December 31, 2024	<u>3,991</u>	<u>1,897</u>	<u>1,584</u>	<u>1,054</u>	<u>1,042</u>	<u>748</u>	<u>10,316</u>

As at December 31, 2025 and 2024 included in property, equipment, and intangible assets were fully depreciated assets of AZN 8,731 and AZN 7,531, respectively.

As at December 31, 2025 and 2024, included in property and equipment were insured assets of AZN 7,730 and AZN 4,739, respectively.

As at December 31, 2025 and 2024, no property and equipment were pledged as collateral for liabilities.

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

Revalued assets

The fair values of the Group’s buildings are categorized into Level 3 of the fair value hierarchy as at December 31, 2025 and 2024. The Group engaged an independent appraiser, “Value and Sources” LLC to determine the revalued amount of its property as at December 31, 2025. Revalued amount is determined by reference to market and income-based evidences. The valuation method used was sales-comparison and income analysis. The revaluation gain amounting to AZN 3,140 (excluding tax effect) has been recognized within other comprehensive income.

The carrying value of buildings as at December 31, 2025, if they would not have been revalued, would be AZN 4,150 (December 31, 2024: AZN 3,991).

12. RIGHT-OF-USE ASSETS

	December 31, 2025	December 31, 2024
Balance at the beginning of the year	3,818	4,137
Additions	8,463	143
Modifications	405	1,477
Disposals	(1,364)	-
Depreciation charge for the year	(2,562)	(1,939)
Balance at the end of the year	8,760	3,818

The Group leases office premises. Rental contracts are typically made for fixed periods of 1 to 5 years.

13. OTHER ASSETS

	December 31, 2025	December 31, 2024
Financial assets:		
Receivables from intermediaries	13,816	22,059
Funds in settlement	5,929	9,455
Receivables from overdrafts	3,115	2,048
Receivables from sale of repossessed collaterals	1,575	1,770
Derivative financial instruments	771	101
Others	1,431	1,282
Less: allowance for expected credit losses	(3,226)	(3,499)
Total other financial assets	23,411	33,216
Non-financial assets:		
Prepayments for property, equipment and intangible assets	1,242	578
Prepaid expenses	1,227	1,051
Others	306	230
Total other non-financial assets	2,775	1,859
Total other assets	26,186	35,075

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

Analysis of movements in the allowance for expected credit losses is as follows:

	December 31, 2025	December 31, 2024
Balance at the beginning of the year	(3,499)	(2,942)
Recovery/(charge) of expected credit losses	<u>273</u>	<u>(557)</u>
Balance at the end of the year	<u><u>(3,226)</u></u>	<u><u>(3,499)</u></u>

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

14. AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2025	December 31, 2024
Term deposits by resident financial institutions	60,291	29,327
Loro accounts and demand deposits by resident financial institutions	<u>15,569</u>	<u>18,915</u>
Total amounts due to banks and other financial institutions	<u><u>75,860</u></u>	<u><u>48,242</u></u>

As at December 31, 2025, the Group had 2 financial institutions (December 31, 2024: 1 financial institution), whose balance exceeded 10 % of equity. The gross value of this balance as at December 31, 2025 was AZN 43,005 (December 31, 2024: AZN 15,114).

As at December 31, 2025, accrued interest payable included in amounts due to banks and other financial institutions amounted to AZN 1,101 (December 31, 2024: AZN 419).

15. AMOUNTS DUE TO CUSTOMERS

	December 31, 2025	December 31, 2024
Loro accounts and demand deposits		
- Retail	150,468	150,994
- Corporate	<u>194,605</u>	<u>136,901</u>
Total loro accounts and demand deposits	<u><u>345,073</u></u>	<u><u>287,895</u></u>
Term deposits		
- Retail	501,912	331,994
- Corporate	<u>21,240</u>	<u>61,581</u>
Total term deposits	<u><u>523,152</u></u>	<u><u>393,575</u></u>
Total amounts due to customers	<u><u>868,225</u></u>	<u><u>681,470</u></u>

As at December 31, 2025, the Group had 3 customers (December 31, 2024: 4 customers), whose balances individually exceeded 10% of equity. The total amounts of these balances as at December 31, 2025 were AZN 117,169 (December 31, 2024: AZN 123,986).

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As at December 31, 2025, the Group maintained customer deposit balances of AZN 30,365 (December 31, 2024: AZN 31,948) that served as collateral against loans and credit-related commitments.

Included in amounts due to customers in the amount of AZN 501,100 and AZN 434,181 as at December 31, 2025 and 2024, respectively are deposits secured by the Azerbaijan Deposit Insurance Fund.

As at December 31, 2025, accrued interest payable included in amounts due to customers amounted to AZN 14,038 (December 31, 2024: AZN 12,175).

Economic sector concentrations within amounts due to customers are as follows:

	December 31, 2025	December 31, 2024
Analysis by economic sector/customer type:		
Individuals	652,585	482,988
Energy	79,510	41,910
Government related entities	54,043	38,424
Trade and service	47,832	62,250
Construction	16,587	11,416
Manufacturing	4,838	26,351
Transportation and communication	4,110	5,380
Others	8,720	12,751
Total amounts due to customers	868,225	681,470

16. BORROWED FUNDS AND SUBORDINATED BORROWINGS

	December 31, 2025	December 31, 2024
Borrowed funds		
Azerbaijan Mortgage and Credit Guarantee Fund	172,766	149,465
Business Development Fund of the Republic of Azerbaijan	65,920	71,476
ECO Trade and Development Bank	10,143	-
Nakhchivan Mortgage and Credit Guarantee Fund	6,993	4,463
Black Sea Trade and Development Bank	5,254	8,755
Agrarian Credit and Development Agency under the Ministry of Agriculture	3,537	3,550
Total borrowed funds	264,613	237,709
Subordinated borrowings	8,535	14,590
Total	273,148	252,299

Azerbaijan Mortgage and Credit Guarantee Fund

The Group signed an agreement on December 2, 2016 with the Azerbaijan Mortgage and Credit Guarantee Fund, for the initial financing and refinancing of mortgage loans at an interest rate of 1-4% p.a. and the Group further on lends these funds to eligible borrowers at rates not higher than 8% p.a. As at December 31, 2025, the Group has AZN 172,766 (December 31, 2024: AZN 149,465) payable to the fund, repayable up to December 2055. There are no financial covenants with regard to borrowing from the Azerbaijan Mortgage and Credit Guarantee Fund, the Group should comply with.

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Business Development Fund of the Republic of Azerbaijan

The Group signed a credit agreement on November 26, 2009 with the Business Development Fund of the Republic of Azerbaijan, a programme under the auspices of the Ministry of Economy of the Republic of Azerbaijan, for the financing of small and medium-size enterprises. Under this programme, funds are made available to the Group at an interest rate of 1.0% per annum and the Group lends these funds on to eligible borrowers at rates not higher than 6.0%-8.0% per annum. As at December 31, 2025 the Group has AZN 65,920 (December 31, 2024: AZN 71,476) payable to the fund, repayable up to October 2032. There are no financial covenants with regard to borrowing from the Business Development Fund of the Republic of Azerbaijan that the Group should comply with.

ECO Trade and Development Bank

The Group signed a loan agreement on April 4, 2025 with the ECO Trade and Development Bank, for the financing of its lending activities. The Group lends these funds on to eligible borrowers in accordance with its lending policies. As at December 31, 2025, the Group has AZN 10,143 (December 31, 2024: nil) payable to the ECO Trade and Development Bank, repayable up to April 2028. As at December 31, 2025, the lender provided a waiver in respect of certain contractual provisions and, accordingly, the borrowed fund has been presented based on its original contractual terms.

Nakhchivan Mortgage and Credit Guarantee Fund

The Group signed an agreement on April 29, 2024 with the Nakhchivan Mortgage and Credit Guarantee Fund, for the initial financing and refinancing of mortgage loans at an interest rate of 2-4.5% p.a. and the Group further on lends these funds to eligible borrowers at rates not higher than 8% p.a. As at December 31, 2025, the Group has AZN 6,993 (December 31, 2024: AZN 4,463) payable to the fund, repayable up to October 2055. There are no financial covenants with regard to borrowing from the Nakhchivan Mortgage and Credit Guarantee Fund, the Group should comply with.

Black Sea Trade and Development Bank

On December 13, 2023, the Bank entered into a loan agreement with the Black Sea Trade and Development Bank (BSTDB) for supporting SME financing in Azerbaijan. As at December 31, 2025, the Group has AZN 5,254 (December 31, 2024: AZN 8,755) repayable up to October 2026 with interest rate of 12%. As at December 31, 2025, the lender provided a waiver in respect of certain contractual provisions and, accordingly, the borrowed fund has been presented based on its original contractual terms.

Agrarian Credit and Development Agency under the Ministry of Agriculture

The Group signed an agreement with the Agrarian Credit and Development Agency under the Ministry of Agriculture on May 24, 2018 for financing agricultural investments. Under this programme, funds are made available to the Group at an interest rate of 2.0% per annum and the Group lends these funds on to eligible borrowers at rates not higher than 7.0%. As at December 31, 2025, the Group has AZN 3,537 (December 31, 2024: AZN 3,550) payable to the fund, repayable up to May 2029. There are no financial covenants with regard to borrowing from the Azerbaijan State Agency on Agricultural Credits that the Group should comply with.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

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

As at December 31, 2025, accrued interest payable included in borrowed funds amounted to AZN 853 (December 31, 2024: AZN 783).

Subordinated borrowings

Subordinated borrowings comprised deposits denominated in USD, including:

- As at December 31, 2025, AZN 8,535 placed by “Kapital Bank” OJSC under a subordinated loan agreement signed in December 2024, maturing in December 2031, with an annual interest rate of 7.5%. (December 31, 2024: AZN 8,528);
- As at December 31, 2024, AZN 6,062 placed by related party “Mega Insurance” OJSC under a subordinated loan agreement signed in April 2024, maturing in April 2031, with an annual interest rate of 7.0%.

In case of bankruptcy, the repayment of the subordinated borrowings will be made after settlement in full of all other liabilities of the Group.

As at December 31, 2025, accrued interest payable included in subordinated borrowings amounted to AZN 35 (December 31, 2024: AZN 140)

Reconciliation of movements of borrowed funds and subordinated borrowings to cash flows arising from financing activities:

	Borrowed funds	Subordinated borrowings	Total
Balance as at January 1, 2025	237,709	14,590	252,299
Changes from financing cash flows			
Proceeds	81,489	-	81,489
Repayment	(55,245)	(5,950)	(61,195)
Total	263,953	8,640	272,593
Other changes			
Interest expense	7,092	638	7,730
Interest paid	(7,022)	(743)	(7,765)
Foreign currency movement	590	-	590
Balance as at December 31, 2025	264,613	8,535	273,148
	Borrowed funds	Subordinated borrowings	Total
Balance as at January 1, 2024	202,681	6,062	208,743
Changes from financing cash flows			
Proceeds	105,692	14,450	120,142
Repayments	(70,946)	(5,950)	(76,896)
Total changes	237,427	14,562	251,989
Other changes			
Interest expense	6,330	451	6,781
Interest paid	(6,048)	(423)	(6,471)
Balance as at December 31, 2024	237,709	14,590	252,299

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

17. DEBT SECURITIES ISSUED

	December 31, 2025	December 31, 2024
Local bonds	8,646	8,619
Total	8,646	8,619

Debt securities issued represent bonds registered in the State Register for Securities by the Central Bank of the Republic of Azerbaijan. Bonds were issued at par, are unsecured, carry interest rate of 9.5% per annum, and mature in May 2026.

As at December 31, 2025 and 2024, accrued interest payable included in debt securities issued amounted to AZN 95 and AZN 68, respectively.

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

	December 31, 2025	December 31, 2024
Balance at the beginning of the year	8,619	-
Cash flows		
Proceeds	-	9,943
Repayments	-	(1,445)
Interest paid	(812)	(411)
Non-cash changes		
Interest expense	839	532
Balance at the end of the year	8,646	8,619

18. LEASE LIABILITIES

	December 31, 2025	December 31, 2024
Current lease liabilities	2,866	1,918
Non-current lease liabilities	6,279	2,162
Total lease liabilities	9,145	4,080

	Minimum lease payments due		
	Within one year	One to five years	Total
Lease payments	2,977	7,579	10,556
Finance charges	(111)	(1,300)	(1,411)
Net present value as at December 31, 2025	2,866	6,279	9,145

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(In thousands of AZN, unless otherwise indicated)

	Minimum lease payments due		
	Within one year	One to five years	Total
Lease payments	1,998	2,737	4,735
Finance charges	<u>(80)</u>	<u>(575)</u>	<u>(655)</u>
Net present value as at December 31, 2024	<u>1,918</u>	<u>2,162</u>	<u>4,080</u>

The Group mainly leases a number of branch and office premises. The leases typically run for a period of 1-5 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every three years to reflect market rentals.

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

	Amount
January 1, 2024	<u>4,337</u>
Cash flows	
Repayment of principal portion	(1,877)
Interest paid	<u>(354)</u>
Non-cash changes	
Additions	143
Modifications	1,477
Interest expense	<u>354</u>
December 31, 2024	<u>4,080</u>
Cash flows	
Repayment of principal portion	(2,387)
Interest paid	<u>(662)</u>
Non-cash changes	
Additions	8,463
Modifications	405
Terminations	(1,416)
Interest expense	<u>662</u>
December 31, 2025	<u>9,145</u>

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(In thousands of AZN, unless otherwise indicated)

19. OTHER LIABILITIES

	December 31, 2025	December 31, 2024
Financial liabilities:		
Funds in settlement	9,571	8,834
Accrued expenses	915	2,028
Payables to Azerbaijan Deposit Insurance Fund	621	229
	<u>11,107</u>	<u>11,091</u>
Total other financial liabilities		
Non-financial liabilities:		
Payables to employees	5,669	4,562
Provision for guarantees issued	1,714	5,621
Taxes payable	1,671	1,633
Payables to State Social Protection Fund	1,252	1,403
Deferred support bonus income from payment network operators	1,020	-
Others	1,393	233
	<u>12,719</u>	<u>13,452</u>
Total other non-financial liabilities		
	<u>23,826</u>	<u>24,543</u>
Total other liabilities		

20. SHARE CAPITAL AND REVALUATION SURPLUS FOR BUILDINGS

Share capital

As at December 31, 2025 the authorized, issued and outstanding share capital comprises 4,992,611 ordinary shares (December 31, 2024: 4,992,611). All shares have a nominal value of AZN 20.44 per share.

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

Dividends in the amount of AZN 4,500 were declared and paid by the Group during the year ended December 31, 2025, with a dividend per share of AZN 0.90 (December 31, 2024: AZN 9,700, AZN 1.94).

As at December 31, 2025 and 2024 an adjustment of AZN 747 is included in share capital. The adjustment is resulted from the restatement of share capital due to hyperinflation period of the Republic of Azerbaijan economy between 1993 and end of 1997.

Revaluation surplus for buildings

The revaluation surplus for buildings comprises the cumulative positive revalued value of buildings, until the assets are derecognized or impaired.

Earnings per share

	December 31, 2025	December 31, 2024
Net profit attributable to ordinary shareholders (AZN'000)	9,652	10,611
Weighted average number of ordinary shares for the year ended December 31 (thousands of shares)	4,993	4,993
Basic and diluted earnings per share (AZN per share)	<u>1.93</u>	<u>2.13</u>

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21. NET INTEREST INCOME

	Year ended December 31, 2025	Year ended December 31, 2024
Interest income calculated using the effective interest method		
Loans to customers	130,347	104,687
Cash and cash equivalents	4,687	3,458
Investment securities	4,582	7,794
Amounts due from banks and other financial institutions	1,769	1,409
Guarantees issued	110	119
	<u>141,495</u>	<u>117,467</u>
Total interest income calculated using the effective interest method		
Interest expense calculated using the effective interest method		
Amounts due to customers	(44,607)	(34,971)
Borrowed funds	(7,092)	(6,330)
Amounts due to banks and other financial institutions	(4,794)	(1,745)
Debt securities issued	(839)	(532)
Lease liabilities	(662)	(354)
Subordinated borrowings	(638)	(451)
	<u>(58,632)</u>	<u>(44,383)</u>
Total interest expense calculated using the effective interest method		
Net interest income	<u>82,863</u>	<u>73,084</u>

22. FEE AND COMMISSION INCOME

	Year ended December 31, 2025	Year ended December 31, 2024
Plastic card operations	25,290	27,299
Settlements	4,552	4,733
Cash operations	1,941	3,102
Guarantees and letters of credit	903	2,186
Foreign exchange operations	845	867
Others	430	790
	<u>33,961</u>	<u>38,977</u>
Total fee and commission income		

Performance obligations and revenue recognition policies

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

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

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Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Group provides banking services to retail and corporate customers, overdraft facilities, foreign currency transactions, credit card transactions. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer’s account when the transaction takes place.	Revenue related to transactions is recognized at the point in time when the transaction takes place.
	The Group charges commission fee to the customers for the guarantee letters issued.	Since, the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs, the Group recognises revenue over time.

23. FEE AND COMMISSION EXPENSE

	Year ended December 31, 2025	Year ended December 31, 2024
Plastic card operations	(30,772)	(36,469)
Payment terminals	(3,567)	(4,044)
Credit inquiry services	(2,073)	(1,680)
Settlements	(1,713)	(1,652)
Cash operations	(566)	(314)
Brokerage services	(144)	(120)
Guarantees and letters of credit	(55)	(180)
Others	(45)	(42)
Total fee and commission expense	<u>(38,935)</u>	<u>(44,501)</u>

24. PERSONNEL EXPENSES

	Year ended December 31, 2025	Year ended December 31, 2024
Employee compensation	(33,908)	(30,559)
Payments to Social Security Protection Fund	(6,126)	(5,555)
Other employee related expenses	(373)	(548)
Total personnel expenses	<u>(40,407)</u>	<u>(36,662)</u>

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25. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2025	Year ended December 31, 2024
Depreciation and amortization expenses	(5,330)	(4,618)
Payments to the Azerbaijan Deposit Insurance Fund	(3,308)	(3,196)
Marketing and advertising expenses	(2,474)	(3,073)
Software cost	(1,866)	(1,146)
Premises security	(1,278)	(1,194)
Communication expenses	(1,179)	(848)
Professional services fees	(1,046)	(556)
Office supplies	(779)	(844)
Property and equipment maintenance costs	(637)	(503)
Low value and short-term lease expenses	(514)	(252)
Printing expenses	(505)	(264)
Business travel and related expenses	(475)	(512)
Taxes other than income tax (including fines and penalties)	(314)	(266)
Utility expenses	(313)	(220)
Sponsorship expenses	(241)	(126)
Vehicle running costs	(215)	(145)
Insurance expenses	(163)	(142)
Membership fees	(123)	(22)
Charity expenses	(104)	(107)
Others	(338)	(568)
	<u>(21,202)</u>	<u>(18,602)</u>
Total general and administrative expenses	<u>(21,202)</u>	<u>(18,602)</u>

26. INCOME TAX EXPENSE

	December 31, 2025	December 31, 2024
Current income tax expense	(4,750)	(5,308)
Deferred income tax benefit	3,029	2,230
	<u>(1,721)</u>	<u>(3,078)</u>
Total income tax expense	<u>(1,721)</u>	<u>(3,078)</u>

During the years ended December 31, 2025 and 2024, the applicable tax rate for current and deferred income tax is 20%.

The effective tax rate reconciliation is as follows for the years ended December 31, 2025 and 2024:

	December 31, 2025	December 31, 2024
Profit before income tax	11,373	13,689
Income tax at the applicable tax rate	(2,275)	(2,738)
Non-deductible costs	(444)	(340)
Change in unrecognized deferred income tax assets	998	-
	<u>(1,721)</u>	<u>(3,078)</u>
Total income tax expense	<u>(1,721)</u>	<u>(3,078)</u>

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Deferred income tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred income tax assets as at December 31, 2025 and 2024. Future tax benefits will only be realized if profits will be available against which deductible temporary differences can be utilised and there are no changes to the law and regulations that adversely affect the Group’s ability to claim deductions in future periods. The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended December 31, 2025 and 2024 are presented as follows:

	January 1, 2025	Credited/ (charged) to profit or loss	Charged to OCI	December 31, 2025
Loans to customers	4,504	2,807	-	7,311
Other liabilities	1,525	(508)	-	1,017
Other assets	101	838	-	939
Right-of-use assets	(433)	785	-	352
Assets held for sale	36	(819)	-	(783)
Investment securities	(336)	(324)	-	(660)
Property, equipment and intangible assets	(23)	155	(628)	(496)
Lease liabilities	484	(761)	-	(277)
Amounts due from banks and other financial institutions	(41)	(77)	-	(118)
Amounts due to customers	(18)	(65)	-	(83)
Unrecognized deferred income tax assets	(1,315)	998	-	(317)
Net deferred income tax assets	4,484	3,029	(628)	6,885

	January 1, 2024	Credited/ (charged) to profit or loss	Credited to OCI	December 31, 2024
Loans to customers	2,654	1,850	-	4,504
Other liabilities	1,095	430	-	1,525
Assets held for sale	(97)	133	-	36
Lease liabilities	859	(375)	-	484
Borrowed funds	(15)	15	-	-
Other assets	28	73	-	101
Right-of-use assets	(821)	388	-	(433)
Investment securities	(38)	(316)	18	(336)
Amounts due from banks and other financial institutions	15	(56)	-	(41)
Property, equipment and intangible assets	(129)	106	-	(23)
Amounts due to customers	-	(18)	-	(18)
Unrecognized deferred income tax assets	(1,315)	-	-	(1,315)
Net deferred income tax assets	2,236	2,230	18	4,484

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27. ANALYSIS BY SEGMENT

The Group has two reportable segments, as described below, which are the Group’s strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the chief operating decision maker reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- retail banking – includes loans, deposits and other transactions with retail customers;
- corporate banking – includes loans, deposits and other transactions with corporate customers.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are based on statutory financial information and that are reviewed by the CEO. Segment profit is used to measure performance, as management believes that such information is the most pertinent in evaluating the results of certain segments relative to others who operate within these industries.

Segment breakdown of assets and liabilities is presented below:

	December 31, 2025 (unaudited)	December 31, 2024 (unaudited)
ASSETS		
Corporate banking	658,682	545,734
Retail banking	639,444	529,795
Other	94,427	78,733
Total in management accounting	1,392,553	1,154,262
Total IFRS adjustments amount	(22,402)	(31,372)
Total per IFRS	1,370,151	1,122,890
LIABILITIES		
Corporate banking	613,390	497,561
Retail banking	613,635	497,759
Other	44,517	36,277
Total in management accounting	1,271,542	1,031,597
Total IFRS adjustments amount	(12,692)	(12,344)
Total per IFRS	1,258,850	1,019,253

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(In thousands of AZN, unless otherwise indicated)

Segment information for the main reportable segments for the year ended December 31, 2025 is presented below:

	Retail banking (unaudited)	Corporate banking (unaudited)	Unallocated (unaudited)	Total in management accounting (unaudited)	Total IFRS adjustment amount	Total per IFRS (unaudited)
Interest income	80,019	57,443	-	137,462	4,033	141,495
Recovery/(charge) of expected credit losses on amounts due from banks and other financial institutions	(4)	(85)	-	(89)	388	299
Recovery/(charge) of expected credit losses on other financial assets	306	-	240	546	(273)	273
Change in fair value of assets held for sale	-	-	-	-	532	532
Recovery/(charge) of expected credit losses on guarantees	(861)	-	-	(861)	4,768	3,907
Fee and commission income	33,742	11,050	-	44,792	(10,831)	33,961
Net gain on trading in foreign currencies	792	1,432	-	2,224	(66)	2,158
Other operating income, net	2,766	-	-	2,766	1,157	3,923
Revenue	116,760	69,840	240	186,840	(292)	186,548
Interest expense	(33,736)	(23,841)	-	(57,577)	(1,055)	(58,632)
Charge of expected credit losses on loans to customers	(1,554)	(9,839)	-	(11,393)	(4,012)	(15,405)
Fee and commission expense	(38,354)	(1,650)	-	(40,004)	1,069	(38,935)
Net loss on foreign exchange operations	(4)	(590)	-	(594)	-	(594)
Personnel expenses	(31,537)	(8,201)	-	(39,738)	(669)	(40,407)
General and administrative expenses	(4,221)	(17,329)	-	(21,550)	348	(21,202)
Expenses	(109,406)	(61,450)	-	(170,856)	(4,319)	(175,175)
Profit before income tax	7,354	8,390	240	15,984	(4,611)	11,373
Income tax expense						(1,721)
Net profit for the year						9,652

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Segment information for the main reportable segments for the year ended December 31, 2024 is presented below:

	Retail banking (unaudited)	Corporate banking (unaudited)	Unallocated (unaudited)	Total in management accounting (unaudited)	Total IFRS adjustment amount	Total per IFRS (unaudited)
Interest income	76,610	37,734	-	114,344	3,123	117,467
Recovery/(charge) of expected credit losses on investment securities	-	(6)	-	(6)	656	650
Recovery/(charge) of expected credit losses on amounts due from banks and other financial institutions	-	(92)	-	(92)	278	186
Change in fair value of assets held for sale	-	-	-	-	169	169
Fee and commission income	31,958	15,741	-	47,699	(8,722)	38,977
Net gain on trading in foreign currencies	-	3,668	-	3,668	391	4,059
Net gain on foreign currency operations	(5)	(3)	-	(8)	16	8
Other operating income, net	1,611	793	-	2,404	1,832	4,236
Revenue	110,174	57,835	-	168,009	(2,257)	165,752
Interest expense	(30,950)	(12,719)	-	(43,669)	(714)	(44,383)
Charge of expected credit losses on loans to customers	(3,412)	(1,681)	-	(5,093)	(1,170)	(6,263)
Recovery/(charge) of expected credit losses on other financial assets	652	-	-	652	(1,209)	(557)
Fee and commission expense	(30,459)	(12,517)	-	(42,976)	(1,525)	(44,501)
Charge of expected credit losses on guarantees	-	-	-	-	(1,095)	(1,095)
Personnel expenses	(34,952)	-	-	(34,952)	(1,710)	(36,662)
General and administrative expenses	(15,025)	(6,174)	-	(21,199)	2,597	(18,602)
Expenses	(114,146)	(33,091)	-	(147,237)	(4,826)	(152,063)
Profit before income tax	(3,972)	24,744	-	20,772	(7,083)	13,689
Income tax expense						(3,078)
Net profit for the year						10,611

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28. RISK MANAGEMENT, CORPORATE GOVERNANCE AND INTERNAL CONTROL

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

Corporate governance framework

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

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

Azerbaijani legislation and the charter of the Group establish lists of decisions that are exclusively approved by the General Shareholders’ meeting and that are approved by the Supervisory Board.

As at December 31, 2025, the Supervisory Board includes:

- Zakir Nuriyev – Chairman of the Supervisory Board;
- Rauf Aliyev – Member of the Supervisory Board;
- Rashad Abbasov – Member of the Supervisory Board;
- Rahman Aliyev – Independent Member of the Supervisory Board;
- Zaur Bakhshaliyev – Independent Member of the Supervisory Board.

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

As at December 31, 2025 the Management Board included:

- Aydin Huseynov – Chairman of the Management Board;
- Orhan Gultakin – First Deputy Chairman of the Management Board;
- Samir Rzayev – CFO, Member of the Management Board;
- Ramil Nasibov – CTO, Member of the Management Board;
- Natig Novruzov – CRO, Member of the Management Board.

Internal control policies and procedures

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

The purpose of internal controls is to ensure:

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

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(In thousands of AZN, unless otherwise indicated)

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

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

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

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

The internal control system in the Group comprises:

- the Supervisory Board and its committees;
- the Chief Executive Officer and the Management Board;
- the Chief Accountant;
- the Risk Management Function;
- the Security Function, including IT-security;
- the Human Resource Function;
- the Internal Audit Function;
- other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:
 - heads of branches and heads of business units;
 - business processes managers;
 - division responsible for compliance with anti-money laundering requirements;
 - the legal officer – an employee responsible for compliance with the legal and regulatory requirements;
 - other employees with control responsibilities.

The main functions of the Internal Audit Function include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures;
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit organisation (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks);

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- audit of reliability of internal control system over automated information systems;
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information;
- audit of applicable methods of safekeeping the credit organisation’s property;
- assessment of economic reasonability and efficiency of operations and other deals;
- audit of internal control processes and procedures;
- audit by the Risk Department.

Compliance with the Group standards is supported by a program of periodic reviews undertaken by the Internal Audit Function. The Internal Audit Function is independent from management and reports directly to the Audit Committee and Supervisory Board. The results of the Internal Audit Function reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Supervisory Board and senior management of the Group.

Management believes that the Group complies with the CBAR requirements related to risk management and internal control systems, including requirements related to the Internal Audit Function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management policies and procedures

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

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

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

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

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

The Management Board of the Group has the responsibility for controlling the Group’s compliance with risk limits and capital adequacy ratios as established by the CBAR. With the view of controlling effectiveness of the Group’s risk management procedures and their consistent application the Management Board of the Group periodically receives reports prepared by the Internal Audit Function and the Risk Department, discuss the contents of these reports and consider proposed corrective actions.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a Credit Committee and an Asset and Liability Management Committee (ALCO).

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

Market risk

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

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

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Department.

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

Interest rate risk

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

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Interest rate gap analysis

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

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non- interest bearing	Carrying amount
December 31, 2025							
FINANCIAL ASSETS							
Cash and cash equivalents	105,047	-	-	-	-	112,505	217,552
Amounts due from banks and other financial institutions	8	-	17,868	1,367	15,581	47,067	81,891
Investment securities	11,913	19,762	37,608	4,979	-	37,118	111,380
Loans to customers	9,424	11,992	108,036	593,646	180,913	-	904,011
Other financial assets	-	-	-	-	-	23,411	23,411
Total financial assets	126,392	31,754	163,512	599,992	196,494	220,101	1,338,245
FINANCIAL LIABILITIES							
Amounts due to banks and other financial institutions	31,464	6,953	32,754	2,800	1,889	-	75,860
Amounts due to customers	25,225	41,227	241,408	211,482	7,522	341,361	868,225
Borrowed funds	813	243	14,296	69,920	179,341	-	264,613
Subordinated borrowings	-	-	35	-	8,500	-	8,535
Debt securities issued	-	-	8,646	-	-	-	8,646
Lease liabilities	270	536	2,060	6,103	176	-	9,145
Other financial liabilities	-	-	-	-	-	11,107	11,107
Total financial liabilities	57,772	48,959	299,199	290,305	197,428	352,468	1,246,131
Interest rate gap	68,620	(17,205)	(135,687)	309,687	(934)	(132,367)	92,114
	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non- interest bearing	Carrying amount
December 31, 2024							
FINANCIAL ASSETS							
Cash and cash equivalents	10,000	-	-	-	-	58,992	68,992
Amounts due from banks and other financial institutions	97	-	883	11,600	8,500	39,066	60,146
Investment securities	8,983	39,148	35,365	31,118	-	606	115,220
Loans to customers	67,735	60,455	250,529	320,637	125,297	-	824,653
Other financial assets	-	-	-	-	-	33,216	33,216
Total financial assets	86,815	99,603	286,777	363,355	133,797	131,880	1,102,227
FINANCIAL LIABILITIES							
Amounts due to banks and other financial institutions	15,385	935	250	1,800	14,450	15,422	48,242
Amounts due to customers	70,937	39,311	181,640	97,071	4,616	287,895	681,470
Borrowed funds	463	944	9,482	73,660	153,160	-	237,709
Subordinated borrowings	140	-	-	-	14,450	-	14,590
Debt securities issued	-	104	-	8,515	-	-	8,619
Lease liabilities	187	367	1,364	1,997	165	-	4,080
Other financial liabilities	-	-	-	-	-	11,091	11,091
Total financial liabilities	87,112	41,661	192,736	183,043	186,841	314,408	1,005,801
Interest rate gap	(297)	57,942	94,041	180,312	(53,044)	(182,528)	96,426

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Interest rate gaps are managed principally through refinancing of interest-bearing liabilities maturing in respective maturity bands with liabilities at equal or lower interest rates.

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at December 31, 2025 and 2024. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2025			2024		
	Average effective interest rate, %			Average effective interest rate, %		
	AZN	USD	EUR	AZN	USD	EUR
Interest-bearing assets						
Cash and cash equivalents	6.66%	0.20%	0.00%	6.25%	-	-
Amounts due from banks and other financial institutions	13.33%	6.96%	4.70%	15.35%	6.73%	2.60%
Investment securities	8.64%	3.87%	0.00%	7.95%	4.57%	-
Loans to customers	15.21%	6.29%	6.71%	13.18%	6.02%	6.32%
Interest-bearing liabilities						
Amounts due to banks and other financial institutions	10.34%	6.59%	0.00%	5.73%	1.48%	-
Amounts due to customers	11.17%	2.78%	0.53%	10.02%	3.01%	1.87%
Borrowed funds	2.15%	-	5.58%	2.25%	-	-
Subordinated borrowings	7.00%	-	-	-	7.29%	-
Debt securities issued	9.50%	-	-	9.50%	-	-
Lease liabilities	7.45%	-	-	7.25%	-	-

Interest rate sensitivity analysis

The management of interest rate risk based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at December 31, 2025 and 2024 is as follows:

	December 31, 2025	December 31, 2024
100 bp parallel fall	(1,133)	(964)
100 bp parallel rise	1,133	964

Currency risk

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

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

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(In thousands of AZN, unless otherwise indicated)

The following table shows the currency structure of financial assets and liabilities as at December 31, 2025:

	AZN	USD	EUR	Other currencies	Total
FINANCIAL ASSETS					
Cash and cash equivalents	156,171	55,276	5,468	637	217,552
Amounts due from banks and other financial institutions	50,806	28,080	3,005	-	81,891
Investment securities	47,145	64,235	-	-	111,380
Loans to customers	862,299	40,873	839	-	904,011
Other financial assets	18,340	4,845	226	-	23,411
Total financial assets	1,134,761	193,309	9,538	637	1,338,245
Derivatives	-	20,400	10,011	-	30,411
FINANCIAL LIABILITIES					
Amounts due to banks and other financial institutions	41,198	34,639	22	1	75,860
Amounts due to customers	691,690	166,919	9,161	455	868,225
Borrowed funds	254,470	-	10,143	-	264,613
Subordinated borrowings	-	8,535	-	-	8,535
Debt securities issued	8,646	-	-	-	8,646
Lease liabilities	9,145	-	-	-	9,145
Other financial liabilities	9,791	1,213	103	-	11,107
Total financial liabilities	1,014,940	211,306	19,429	456	1,246,131
Derivatives	30,411	-	-	-	30,411
Net position	89,410	2,403	120	181	92,114

The Group is not required to report for the regulatory currency position compliance purposes based on the above table, rather currency position based on prudential figures is reported to the regulator.

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

	AZN	USD	EUR	Other currencies	Total
FINANCIAL ASSETS					
Cash and cash equivalents	48,990	13,289	6,556	157	68,992
Amounts due from banks and other financial institutions	32,391	26,869	886	-	60,146
Investment securities	50,940	64,280	-	-	115,220
Loans to customers	788,296	35,346	1,011	-	824,653
Other financial assets	23,945	8,790	182	299	33,216
Total financial assets	944,562	148,574	8,635	456	1,102,227
Derivatives	11,904	5,100	-	-	17,004
FINANCIAL LIABILITIES					
Amounts due to banks and other financial institutions	31,562	16,668	12	-	48,242
Amounts due to customers	553,787	118,658	8,664	361	681,470
Borrowed funds	237,709	-	-	-	237,709
Subordinated borrowings	-	14,590	-	-	14,590
Debt securities issued	8,619	-	-	-	8,619
Lease liabilities	4,080	-	-	-	4,080
Other financial liabilities	8,643	2,430	18	-	11,091
Total financial liabilities	844,400	152,346	8,694	361	1,005,801
Derivatives	5,100	11,904	-	-	17,004
Net position	106,966	(10,576)	(59)	95	96,426

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A weakening of the AZN, as indicated below, against the following currencies at December 31, 2025 and 2024, would have (decreased)/increased equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	December 31, 2025	December 31, 2024
30% appreciation of USD against AZN	(3,057)	(2,538)
30% appreciation of EUR against AZN	<u>(2,967)</u>	<u>(14)</u>

A strengthening of the AZN against the above currencies at December 31, 2025 and 2024 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Credit risk

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

The credit policy establishes:

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

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

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

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

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

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

	December 31, 2025	December 31, 2024
ASSETS		
Cash and cash equivalents (excluding cash on hand)	180,323	32,268
Amounts due from banks and other financial institutions	81,891	60,146
Investment securities (excluding equity securities)	110,804	114,614
Loans to customers	904,011	824,653
Other financial assets	23,411	33,216
Total maximum exposure	<u>1,300,440</u>	<u>1,064,897</u>

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 10.

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in Note 28.

Credit risk – Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 4.

Significant increase in credit risk

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

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

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

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

- quantitative test based on movement in probability of default (PD);
- qualitative indicators;
- backstop of 30 days past due.

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Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

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

Determining whether credit risk has increased significantly

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant will differ for different types of lending, in particular between corporate and retail.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group’s quantitative criteria:

- For all borrowers when contractual payments are more than 30 days past due.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group’s credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience and are disclosed below:

- For collectively assessed consumer and mortgage loans: If the Group becomes aware of a significant decline in any particular industry and anticipates the closure of businesses or significant lay-offs within that industry.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument return to being measured as a 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. Probation criteria for recovery and transfer of financial instruments to Stage 1 are as follows:

- All scheduled payments on the loan are made in time or overdue less than 30 days.
- For all loans previously classified as Stage 2 based on any information other than past due status and for which there is evidence that there is no longer a significant increase in credit risk.

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Probation criteria for recovery and transfer of financial instruments to Stage 2 are as follows:

- Cure period of 6 months had passed since the loan had been classified as Stage 3, i.e. no restructuring or overdue more than 90 days occurred during 6 months preceding reporting date (Stage 3 to Stage 2).

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

- the criteria are capable of identifying significant increases in credit risk before exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (Stage 1) and lifetime ECL measurements (Stage 2).

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

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

Incorporation of forward-looking information

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

The Group formulates one economic scenario: a base case. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The historical data of defaults use the statistics of the CBAR on the share of overdue loans in total loans to individuals in the banking system. The assessment of the impact of macroeconomic information should be made at least on an annual basis.

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The Group has identified and documented key drivers of credit risk and credit losses for the entire loan portfolio (including the securities portfolio, requirements for financial institutions), using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as at December 31, 2025 included the following key indicators for the Republic of Azerbaijan for the years ending December 31, 2026 through 2027.

Key drivers	2025	2026	2027
Real GDP growth	3.5%	2.5%	2.8%
Oil Price (Brent)	66.5	58.4	60.0
Consumer price index	5.5%	3.8%	4.0%

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

When building a macroeconomic model, the Bank uses external statistics on defaults (NPL), as there is no sufficient internal statistics on defaults.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 4.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset’s credit risk has increased significantly reflects a comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

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

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

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

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Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that exposure is credit-impaired (see Note 4). A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to a 12-month ECL.

Measurement of ECL

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

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

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

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

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral (for certain types of portfolio), seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property (for certain types of portfolio), LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using first available contractual rate as the discounting factor, as it is considered as the best proxy of effective interest rate at origination.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

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

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

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

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

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(In thousands of AZN, unless otherwise indicated)

December 31, 2025

	Exposure	External benchmarks used	
		PD	LGD
Cash and cash equivalents (excluding cash on hand)	180,323	Moody’s default study	S&P recovery studies
Amounts due from banks and other financial institutions	81,891	Moody’s default study	S&P recovery studies
Investment securities	110,804	Moody’s default study	S&P recovery studies

December 31, 2024

	Exposure	External benchmarks used	
		PD	LGD
Cash and cash equivalents (excluding cash on hand)	32,268	Moody’s default study	S&P recovery studies
Amounts due from banks and other financial institutions	60,146	Moody’s default study	S&P recovery studies
Investment securities	114,614	Moody’s default study	S&P recovery studies

Offsetting financial assets and financial liabilities

The disclosure set out in the table below includes financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

December 31, 2025

Types of financial assets/liabilities	Gross amounts of recognized financial asset/liability	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Loans to customers	2,355	2,355	-	2,355	-
Total financial assets	2,355	2,355	-	2,355	-
Amounts due to customers	2,355	2,355	2,355	-	-
Total financial liabilities	2,355	2,355	2,355	-	-

December 31, 2024

Types of financial assets/liabilities	Gross amounts of recognized financial asset/liability	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Loans to customers	31,948	31,948	-	31,948	-
Total financial assets	31,948	31,948	-	31,948	-
Amounts due to customers	31,948	31,948	31,948	-	-
Total financial liabilities	31,948	31,948	31,948	-	-

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Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Supervisory Board.

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

The liquidity management policy requires:

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

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

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

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

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(In thousands of AZN, unless otherwise indicated)

The maturity analysis for financial liabilities as at December 31, 2025 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Amounts due to banks and other financial institutions	31,319	8,609	38,116	-	-	78,044	75,860
Amounts due to customers	370,252	42,056	248,723	220,069	7,906	889,006	868,225
Borrowed funds	829	248	14,582	71,318	182,928	269,905	264,613
Subordinated borrowings	-	-	638	2,550	9,138	12,326	8,535
Debt securities issued	-	-	8,754	-	-	8,754	8,646
Lease liabilities	272	544	2,161	7,290	289	10,556	9,145
Other financial liabilities	11,107	-	-	-	-	11,107	11,107
Total financial liabilities	413,779	51,457	312,974	301,227	200,261	1,279,698	1,246,131
Credit related commitments	148,716	-	-	-	-	148,716	

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Amounts due to banks and other financial institutions	32,347	1,031	289	2,189	18,443	54,299	48,242
Amounts due to customers	376,774	43,340	210,271	117,990	5,891	754,266	681,470
Borrowed funds	486	1,041	10,977	89,534	195,475	297,513	237,709
Subordinated borrowings	147	-	-	-	18,442	18,589	14,590
Debt securities issued	-	115	-	10,350	-	10,465	8,619
Lease liabilities	188	373	1,436	2,453	285	4,735	4,080
Other financial liabilities	11,091	-	-	-	-	11,091	11,091
Total financial liabilities	421,033	45,900	222,973	222,516	238,536	1,150,958	1,005,801
Credit related commitments	179,908	-	-	-	-	179,908	

In accordance with Azerbaijani legislation, individuals and legal entities can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The management of the Group does not expect that individuals and legal entities withdraw their term deposits before their stated maturity dates.

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The table below shows an analysis, by contractual maturities, of the amounts recognized in the consolidated statement of financial position as at December 31, 2025:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	217,552	-	-	-	-	-	-	217,552
Amounts due from banks and other financial institutions	46,607	-	17,876	1,367	10,581	5,460	-	81,891
Investment securities	16,892	27,532	61,399	4,981	-	576	-	111,380
Loans to customers	9,424	11,992	108,036	593,710	180,913	-	8,487	904,011
Other financial assets	23,411	-	-	-	-	-	-	23,411
Total financial assets	313,886	39,524	187,311	591,507	191,494	6,036	8,487	1,338,245
Amounts due to banks and other financial institutions	31,464	6,953	32,754	2,800	1,889	-	-	75,860
Amounts due to customers	366,586	41,227	241,408	211,482	7,522	-	-	868,225
Borrowed funds	813	243	14,296	69,920	179,341	-	-	264,613
Subordinated borrowings	-	-	35	-	8,500	-	-	8,535
Debt securities issued	-	-	8,646	-	-	-	-	8,646
Lease liabilities	270	536	2,060	6,103	176	-	-	9,145
Other financial liabilities	11,107	-	-	-	-	-	-	11,107
Total financial liabilities	410,240	48,959	299,199	290,305	197,428	-	-	1,246,131
Net position	(96,354)	(9,435)	(111,888)	301,202	(5,934)	6,036	8,487	92,114
Cumulative liquidity gap	(96,354)	(105,789)	(217,677)	83,525	77,591	83,627	92,114	

The table below shows an analysis, by contractual maturities, of the amounts recognized in the consolidated statement of financial position as at December 31, 2024:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	68,992	-	-	-	-	-	-	68,992
Amounts due from banks and other financial institutions	33,320	-	883	11,600	8,500	5,843	-	60,146
Investment securities	8,983	39,148	35,365	31,118	-	606	-	115,220
Loans to customers	43,868	60,455	250,529	320,637	125,297	-	23,867	824,653
Other financial assets	33,216	-	-	-	-	-	-	33,216
Total financial assets	188,379	99,603	286,777	363,355	133,797	6,449	23,867	1,102,227
Amounts due to banks and other financial institutions	30,807	935	250	1,800	14,450	-	-	48,242
Amounts due to customers	358,832	39,311	181,640	97,071	4,616	-	-	681,470
Borrowed funds	463	944	9,482	73,660	153,160	-	-	237,709
Subordinated borrowings	140	-	-	-	14,450	-	-	14,590
Debt securities issued	-	104	-	8,515	-	-	-	8,619
Lease liabilities	187	367	1,364	1,997	165	-	-	4,080
Other financial liabilities	11,091	-	-	-	-	-	-	11,091
Total financial liabilities	401,520	41,661	192,736	183,043	186,841	-	-	1,005,801
Net position	(213,141)	57,942	94,041	180,312	(53,044)	6,449	23,867	96,426
Cumulative liquidity gap	(213,141)	(155,199)	(61,158)	119,154	66,110	72,559	96,426	

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The key measures used by the Bank for managing liquidity risk are the liquidity ratio and the Liquidity Coverage Ratio (LCR) stipulated by the CBAR. The Group calculates these mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBAR. These ratios are represented by the instant liquidity ratio, which is calculated as the ratio of highly liquid assets to liabilities payable on demand and the Liquidity Coverage Ratio (LCR), which is calculated as the ratio of high-quality liquid assets to total net cash flows within 30 days.

The Group was in compliance with these ratios as at December 31, 2025 and 2024. The calculation of these mandatory liquidity ratios is as follows.

	Requirement	2025, % (unaudited)	2024, % (unaudited)
Instant liquidity ratio	Not less than 30%	53.84%	46.48%
Liquidity coverage ratio	Not less than 100%	188.90%	111.90%

Operational risk

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

The Group’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group’s reputation with overall cost-effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements. The Group manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

29. CAPITAL MANAGEMENT

The CBAR sets and monitors capital requirements for the Group.

Under the current capital requirements set by the CBAR, groups have to: (i) hold a minimum level of total statutory capital of AZN 50,000 (December 31, 2024: AZN 50,000) and (ii) maintain a ratio of total statutory capital to risk-weighted assets (statutory capital ratio) at or above a prescribed minimum of 10% (December 31, 2024: 10%).

The Group provides the CBAR with information on mandatory ratios in accordance with a set form. The Risk Department controls on daily basis compliance with capital adequacy ratios. In case values of capital adequacy ratios become close to set limits set by the CBAR and Group’s internal policy this information is communicated to the Supervisory Board.

As at December 31, 2025 and 2024, the Group was in compliance with the requirements for minimum total statutory capital amount and ratio to risk-weighted assets. The calculation of capital adequacy based on requirements set by the CBAR was as follows:

	December 31, 2025 (unaudited)	December 31, 2024 (unaudited)
Total regulatory capital	125,444	132,138
Risk-weighted assets	1,112,188	1,057,758
Capital adequacy ratio (%)	11.28%	12.49%

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The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord:

	December 31, 2025	December 31, 2024
Tier 1 capital		
Share capital	102,047	102,047
Accumulated deficit	(1,342)	(1,286)
Total Tier 1 capital	<u>100,705</u>	<u>100,761</u>
Tier 2 capital		
Revaluation reserve – buildings	4,556	2,136
Subordinated borrowings (unamortized part)	8,500	14,450
Total Tier 2 capital	<u>13,056</u>	<u>16,586</u>
Less: investments	(409)	(402)
Total capital	<u>113,352</u>	<u>116,945</u>
Risk-weighted assets		
On-balance sheet	931,693	831,525
Off-balance sheet	180,495	179,908
Total risk weighted assets	<u>1,112,188</u>	<u>1,011,433</u>
Tier 1 capital ratio	<u>9.05%</u>	<u>9.96%</u>
Total capital ratio	<u>10.19%</u>	<u>11.56%</u>

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

30. CREDIT-RELATED COMMITMENTS

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

The Group provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

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

The contractual amounts of credit-related commitments are set out in the following table by category. The amounts reflected in the table for credit-related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

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	December 31, 2025	December 31, 2024
Contracted amount		
Guarantees	120,186	156,129
Undrawn credit lines	28,530	23,779
	<u>148,716</u>	<u>179,908</u>

As at December 31, 2025, all guarantees and undrawn credit lines are in Stage 1 (December 31, 2024: Stage 1).

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

The Group recognized provision for guarantees in the amount of AZN 1,714 as at December 31, 2025 (December 31, 2024: AZN 5,621).

31. CONTINGENCIES

Insurance

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

Litigation

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

Taxation contingencies

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

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

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The Group believes that accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

32. RELATED PARTY TRANSACTIONS

Control relationships

As at December 31, 2025 and 2024, the Group had no ultimate controlling party.

Transactions with the members of the Supervisory Board and the Management Board

Total remuneration included in personnel expenses for the years ended December 31, 2025 and 2024 is as follows:

	December 31, 2025	December 31, 2024
Short-term employee benefits	3,342	2,969
Total short-term employee benefits	3,342	2,969

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

The outstanding balances and average effective interest rates as at December 31, 2025 and 2024 for transactions with the members of the Supervisory Board and the Management Board are as follows:

	December 31, 2025	Average effective interest rate	December 31, 2024	Average effective interest rate
Consolidated statement of financial position				
Loans outstanding (gross)	1,886	17.54%	517	16.41%
Charge of expected credit losses on loans to customers	(54)	-	(18)	-
Current accounts	60,153	-	1,380	-
Deposits received	4,025	6.12%	2,639	5.56%
Other assets	479	-	-	-

Amounts included in profit or loss in relation to transactions with the members of the Supervisory Board and the Management Board for the years ended December 31, 2025 and 2024 are as follows:

	December 31, 2025	December 31, 2024
Profit or loss		
Interest income	330	37
Interest expense	(241)	(194)
Charge of expected credit losses	(36)	(18)

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(In thousands of AZN, unless otherwise indicated)

The outstanding balances and the related average effective interest rates as at December 31, 2025 and 2024 and related profit or loss amounts of transactions for the years ended December 31, 2025 and 2024 with other related parties are as follows:

	Shareholders and close family members and entities under control		Others*		Total
		Average interest rate, %		Average interest rate, %	
December 31, 2025					
Consolidated statement of financial position					
ASSETS					
Loans to customers					
Gross outstanding balance of long-term loans in AZN	-	-	2,101	17.29%	2,101
Gross outstanding balance of long-term loans in USD	631	18.00%	-	-	631
Allowance for expected credit losses	(13)	-	(23)	-	(36)
LIABILITIES					
Amounts due to customers					
Current accounts	598	-	474	-	1,072
Term deposits					
Short-term deposits in AZN	831	9.41%	526	9.13%	1,357
Short-term deposits in USD	55	1.04%	258	1.42%	313
Long-term deposits in AZN	551	9.25%	1,022	9.38%	1,573
Long-term deposits in USD	667	0.49%	102	0.57%	769
Subordinated borrowings in USD	-	-	-	-	-
Profit or loss					
Interest income	59	-	94	-	153
Interest expense	(122)	-	(171)	-	(293)

	Shareholders and close family members and entities under control		Others*		Total
		Average interest rate, %		Average interest rate, %	
December 31, 2024					
Consolidated statement of financial position					
ASSETS					
Loans to customers					
Gross outstanding balance of long-term loans in AZN	584	17.23%	3,537	18.59%	4,121
Gross outstanding balance of long-term loans in USD	1,041	-	308	-	1,349
Allowance for expected credit losses	-	-	(14)	-	(14)
LIABILITIES					
Amounts due to customers					
Current accounts	19,341	-	1,347	-	20,688
Term deposits					
Short-term deposits in AZN	72,450	9.41%	1,444	9.13%	73,894
Short-term deposits in USD	2,037	1.04%	677	-	2,714
Long-term deposits in AZN	4,315	9.25%	1,103	-	5,418
Long-term deposits in USD	2,748	0.49%	3,194	0.57%	5,942
Subordinated borrowings in USD	6,019	7.29%	-	-	6,019
Profit or loss					
Interest income	155	-	128	-	283
Interest expense	(6,971)	-	(299)	-	(7,270)

“RABITABANK” OPEN JOINT-STOCK COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

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

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2025:

	Amortized cost	FVOCI	Total carrying amount	Fair value
Cash and cash equivalents	217,552	-	217,552	217,552
Amounts due from banks and other financial institutions	81,891	-	81,891	81,891
Investment securities	110,804	576	111,380	111,173
Loans to customers	904,011	-	904,011	904,011
Other financial assets	23,411	-	23,411	23,411
	1,337,669	576	1,338,245	1,338,038
Amounts due to banks and other financial institutions	75,860	-	75,860	75,860
Amounts due to customers	868,225	-	868,225	868,225
Borrowed funds	264,613	-	264,613	264,613
Subordinated borrowings	8,535	-	8,535	8,535
Debt securities issued	8,646	-	8,646	8,646
Other financial liabilities	11,107	-	11,107	11,107
	1,236,986	-	1,236,986	1,236,986

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

	Amortized cost	FVOCI	Total carrying amount	Fair value
Cash and cash equivalents	68,992	-	68,992	68,992
Amounts due from banks and other financial institutions	60,146	-	60,146	60,146
Investment securities	114,614	606	115,220	114,979
Loans to customers	824,653	-	824,653	824,653
Other financial assets	33,216	-	33,216	33,216
	1,101,621	606	1,102,227	1,101,986
Amounts due to banks and other financial institutions	48,242	-	48,242	48,242
Amounts due to customers	681,470	-	681,470	681,470
Borrowed funds	237,709	-	237,709	237,709
Subordinated borrowings	14,590	-	14,590	14,590
Debt securities issued	8,619	-	8,619	8,619
Other financial liabilities	11,091	-	11,091	11,091
	1,001,721	-	1,001,721	1,001,721

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

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

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

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

Fair value hierarchy

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

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

The table below analyses financial instruments measured at fair value at December 31, 2025 by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

	Level 3	Total
Investment securities – equity	576	576
	<u>576</u>	<u>576</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

The table below analyses financial instruments measured at fair value at December 31, 2024, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

	Level 3	Total
Investment securities – equity	606	606
	<u>606</u>	<u>606</u>

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized as at December 31, 2025:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Cash and cash equivalents	217,552	-	-	217,552	217,552
Amounts due from banks and other financial institutions	-	81,891	-	81,891	81,891
Investment securities	-	110,597	576	111,173	111,380
Loans to customers	-	-	904,011	904,011	904,011
Other financial assets	-	23,411	-	23,411	23,411
	<u>217,552</u>	<u>215,899</u>	<u>904,587</u>	<u>1,338,038</u>	<u>1,338,245</u>
		Level 2		Total fair values	Total carrying amount
LIABILITIES					
Amounts due to banks and other financial institutions		75,860		75,860	75,860
Amounts due to customers		868,225		868,225	868,225
Borrowed funds		264,613		264,613	264,613
Subordinated borrowings		8,535		8,535	8,535
Debt securities issued		8,646		8,646	8,646
Other financial liabilities		11,107		11,107	11,107
		<u>1,236,986</u>		<u>1,236,986</u>	<u>1,236,986</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at December 31, 2024:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Cash and cash equivalents	68,992	-	-	68,992	68,992
Amounts due from banks and other financial institutions	-	60,146	-	60,146	60,146
Investment securities	-	114,373	606	114,979	115,220
Loans to customers	-	-	824,653	824,653	824,653
Other financial assets	-	33,216	-	33,216	33,216
	<u>68,992</u>	<u>207,735</u>	<u>825,259</u>	<u>1,101,986</u>	<u>1,102,227</u>
		Level 2		Total fair values	Total carrying amount
LIABILITIES					
Amounts due to banks and other financial institutions		48,242		48,242	48,242
Amounts due to customers		681,470		681,470	681,470
Borrowed funds		237,709		237,709	237,709
Subordinated borrowings		14,590		14,590	14,590
Debt securities issued		8,619		8,619	8,619
Other financial liabilities		11,091		11,091	11,091
		<u>1,001,721</u>		<u>1,001,721</u>	<u>1,001,721</u>

34. EVENTS AFTER THE REPORTING DATE

Subsequent to 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 consolidated financial statements.