

**“PREMIUM BANK”
OPEN JOINT STOCK COMPANY**

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

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025	1
INDEPENDENT AUDITORS’ REPORT	2-3
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025:	
Statement of financial position	4
Statement of profit or loss and other comprehensive income	5
Statement of changes in equity	6
Statement of cash flows	7-8
Notes to the financial statements	9-66

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

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the financial statements of "Premium Bank" OJSC (the "Bank").

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

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended December 31, 2025 were authorized for issue on April 27, 2026 by the Management Board of the Bank.

On behalf of the Management Board:

Farhad Bakhshaliyev
Chairman of the Management Board

April 27, 2026
Baku, the Republic of Azerbaijan



Mahir Najafov
Deputy Chairman of the Board/CFO

April 27, 2026
Baku, the Republic of Azerbaijan

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INDEPENDENT AUDITORS' REPORT

To the Shareholders, Supervisory Board and Management of "Premium Bank" Open Joint Stock Company:

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' 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.

Responsibilities of Management and Audit Committee for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Baker Tilly Azerbaijan

April 27, 2026

Baku, the Republic of Azerbaijan

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2025

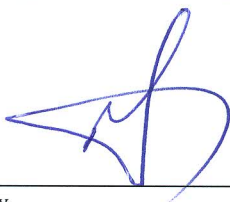
(In thousands of AZN, unless otherwise indicated)

	Notes	December 31, 2025	December 31, 2024
ASSETS:			
Cash and balances with Central Bank	6	165,472	132,210
Balances with other banks	7	22,933	36,890
Investment securities	8	2,058	1,055
Loans and advances to customers	9, 24	464,923	448,774
Property, equipment and right-of-use assets	10, 24	6,961	8,171
Intangible assets	10	2,317	1,604
Deferred income tax asset	23	1,300	1,678
Other assets	11	9,108	6,145
Total assets		675,072	636,527
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and deposits from banks and financial institutions	12	80,494	81,088
Deposits from customers	13, 24	394,058	378,150
Other liabilities	14, 24	13,050	12,653
Total liabilities		487,602	471,891
EQUITY:			
Share capital	15	174,601	154,601
Retained earnings		12,869	10,035
Total equity		187,470	164,636
TOTAL LIABILITIES AND EQUITY		675,072	636,527

On behalf of the Management Board:


Farhad Bakhshaliyev
Chairman of the Management Board

April 27, 2026
Baku, the Republic of Azerbaijan


Mahir Najafov
Deputy Chairman of the Board/CFO

April 27, 2026
Baku, the Republic of Azerbaijan

The notes on pages 9-66 form an integral part of these financial statements.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

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	16, 24	37,192	32,578
Interest expense	16, 24	(11,799)	(11,844)
Net interest income	16	25,393	20,734
Recovery of expected credit losses on financial assets	22	3,297	1,984
Net interest income		28,690	22,718
Fee and commission income	18	13,718	14,295
Fee and commission expense	19	(8,534)	(7,453)
Net gain on foreign exchange operations	17	2,544	3,063
Operating profit		36,418	32,623
Administrative and general expenses	21, 24	(17,459)	(16,051)
Depreciation and amortization expense	20, 24	(2,774)	(3,056)
Other income, net		205	106
Profit before income tax		16,390	13,622
Income tax expense	23	(3,521)	(3,587)
Net profit for the year		12,869	10,035
Other comprehensive income for the year		-	-
Total comprehensive income for the year		12,869	10,035
Earnings per share attributable to the owners of the Bank, basic and diluted (expressed in AZN per share)	29	11.81	10.00

On behalf of the Management Board:

Farhad Bakhsaliyev
Chairman of the Management Board

April 27, 2026
Baku, the Republic of Azerbaijan

Mahir Najafov
Deputy Chairman of the Board/CFO

April 27, 2026
Baku, the Republic of Azerbaijan

The notes on pages 9-66 form an integral part of these financial statements.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

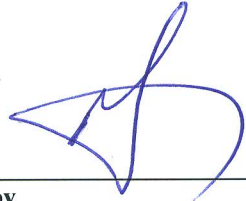
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2025
(In thousands of AZN, unless otherwise indicated)

	Share capital	Retained earnings	Total equity
January 1, 2024	154,601	7,056	161,657
Total comprehensive income for the year	-	10,035	10,035
Dividends declared	-	(7,056)	(7,056)
December 31, 2024	154,601	10,035	164,636
Total comprehensive income for the year	-	12,869	12,869
Dividends declared	-	(10,035)	(10,035)
Increase in share capital	20,000	-	20,000
December 31, 2025	174,601	12,869	187,470

On behalf of the Management Board:


Farhad Bakhshaliyev
Chairman of the Management Board

April 27, 2026
Baku, the Republic of Azerbaijan


Mahir Najafov
Deputy Chairman of the Board/CFO

April 27, 2026
Baku, the Republic of Azerbaijan

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“PREMIUM BANK” OPEN JOINT STOCK COMPANY

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
OPERATING ACTIVITIES			
Profit before income tax		16,390	13,622
Adjustments for non-cash and non-operating items:			
Depreciation and amortization expense	20	2,774	3,056
Recovery of expected credit losses on guarantees issued	22	(39)	(506)
Recovery of expected credit losses on loans and advances to customers	22	(3,258)	(1,887)
Charge of expected credit losses on other financial assets	22	-	409
Net change in accrued interest		(1,171)	(314)
Foreign currency translation gain, net	17	(25)	(1)
Loss/(gain) on sale of property and equipment		41	(17)
Gain on lease liability derecognition		-	(9)
Changes in operating assets and liabilities:			
Mandatory minimum reserve deposit with the CBAR		(3,994)	20,465
Amounts due from financial institutions		654	1,809
Loans and advances to customers		(11,994)	3,546
Other assets		(2,732)	(1,966)
Deposits from customers		8,631	(44,180)
Other liabilities		2,525	(494)
Cash generated from/(used in) operating activities		7,802	(6,467)
Income tax paid		(4,193)	(800)
Net cash generated from/(used in) operating activities		3,609	(7,267)
INVESTING ACTIVITIES			
Payments for property and equipment		(1,008)	(749)
Payments for intangible assets		(804)	(815)
Proceeds from sale of property and equipment		52	23
Payments for investment securities, net		(952)	(1,022)
Net cash used in investing activities		(2,712)	(2,563)
FINANCING ACTIVITIES			
Proceeds from issue of share capital		20,000	-
Proceeds from loans and deposits from banks and financial institutions	12	36,862	26,940
Repayment of loans and deposits from banks and financial institutions	12	(37,420)	(24,108)
Repayment of principal portion of lease liability	14	(1,697)	(1,593)
Dividends paid to the shareholders	15	(10,035)	(7,056)
Net cash provided from/(used in) financing activities		7,710	(5,817)

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)
(In thousands of AZN, unless otherwise indicated)

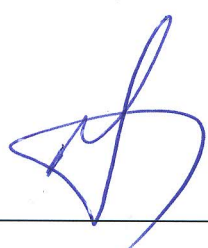
	Notes	Year ended December 31, 2025	Year ended December 31, 2024
Effect of exchange rate changes on cash and cash equivalents		7,349	(2,737)
Effect of net change in accrued interest on cash and cash equivalents		<u>9</u>	<u>(6)</u>
Net increase/(decrease) in cash and cash equivalents		15,965	(18,390)
CASH AND CASH EQUIVALENTS, <i>beginning of the year</i>	5	<u>131,034</u>	<u>149,424</u>
CASH AND CASH EQUIVALENTS, <i>end of the year</i>	5	<u><u>146,999</u></u>	<u><u>131,034</u></u>

Interest paid and received by the Bank during the year ended December 31, 2025 amounted to AZN 11,941 thousand and AZN 36,163 thousand, respectively (December 31, 2024: AZN 11,973 thousand and AZN 32,393 thousand, respectively).

On behalf of the Management Board:


Farnad Bakhshaliyev
Chairman of the Management Board

April 27, 2026
Baku, the Republic of Azerbaijan


Mahir Najafov
Deputy Chairman of the Board/CFO

April 27, 2026
Baku, the Republic of Azerbaijan

The notes on pages 9-66 form an integral part of these financial statements.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 *(In thousands of AZN, unless otherwise indicated)*

1. INTRODUCTION

Legal status and nature of operations

“Premium Bank” Open Joint Stock Company (the “Bank”) was established on January 6, 1994 and held license no. 175 for commercial banking issued by the Central Bank of Azerbaijan Republic (CBAR or Central Bank). The activities of the Bank are regulated by the Central Bank of Azerbaijan Republic. As at December 31, 2025 the registered address of the Bank is Hasan Aliyev Street 131A, AZ 1110, Baku, the Republic of Azerbaijan.

The principal activity of the Bank is providing commercial banking services to legal entities and physical persons. The Bank has five branches and one service point. The Bank operates a network of 46 (December 31, 2024: 43) automatic teller machines. The Bank has 206 employees as at December 31, 2025 (December 31, 2024: 187 employees).

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

	December 31, 2025, %	December 31, 2024, %
Mr. Jahangir Asgarov	86.25	-
“VIP Aviation Services Company” LLC	13.47	15.22
Ms. Elvira Ahmadova	0.28	0.31
Ms. Zarifa Hamzayeva	-	84.47
	100.00	100.00

2. STATEMENT OF COMPLIANCE

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

Going concern

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

Management views the Bank 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 Bank 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 Bank’s ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern.

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

Other basis of presentation criteria

These financial statements are presented in thousands of Azerbaijani manat (“AZN”), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except measurement at fair value of certain financial instruments.

The Bank maintains its accounting records in accordance with the laws of the Republic of Azerbaijan.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

Offsetting

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

3. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS

Standards, interpretations and amendments to existing standards that are effective in 2025

In the current year, the Bank has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on 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 standards did not have a material effect on the financial statements of the Bank.

Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Interpretations were in issue but not yet effective.

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.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

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.

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.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

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.

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

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

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.

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.

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

4. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION

Basis of preparation

The accounting policies applied in the preparation of these financial statements are consistent with those applied in the annual financial statements for the year ended December 31, 2025, except for the effect of new adopted standards, if any.

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical management judgments in applying accounting policies and changes in estimation uncertainty and critical management judgments that have the most significant effect on the amounts recognized in the financial statements are described later in this note.

Foreign currency translation

Functional and presentation currency

These financial statements are presented in Azerbaijan manat (AZN), which is also the Bank's functional currency.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in statement of comprehensive income.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

For the purpose of translation of financial assets and financial liabilities denominated in foreign currencies the following year-end exchange rates have been used:

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

Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs. Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Financial assets and financial liabilities are measured subsequently as described below.

Classification and measurement

Financial assets

On initial recognition, a financial asset is classified as measured: at amortized cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value Through Profit and Loss (FVTPL).

A financial asset is measured at amortized cost if it meets both 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:

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

The information considered includes:

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

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. ‘Profit’ 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 financing risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin.

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

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

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

Reclassifications

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

Classification and subsequent measurement of financial liabilities

The Bank’s financial liabilities include loans and deposits from banks and financial institutions, deposits from customers and certain other liabilities. Financial liabilities are measured subsequently at amortized cost using the effective interest method.

Measurement of ECL

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

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

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 and ECL is 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.
- 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. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. 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.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

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

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

Purchased or originated credit-impaired assets (POCI)

POCI assets are financial assets that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. Life-time ECLs are only recognized or released to the extent that there is a subsequent change in the ECL.

Revolving facilities

The Bank’s product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities at a short notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank’s expectations of the customer behavior, its likelihood of default and the Bank’s future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank’s expectations, the period over which the Bank calculates ECLs for these products, is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Write-off

Assets carried at amortized cost and debt securities at FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

Reversals of impairment loss

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, the excess is written back by reducing the loan impairment allowance account accordingly. The write back is recognized in the statement of comprehensive income.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. The financial guarantee liability is carried at amortized cost when payment under the contract has become probable.

‘Loans commitments’ are firm irrevocable commitments to provide credit under pre-specified terms and conditions. Financial guarantees issued or irrevocable commitments to provide credit are initially measured at fair value and their initial fair value is amortized over the life of the guarantee or the commitment.

Subsequently, they are measured at the higher of this amortized amount and the amount of loss allowance.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

Loans and advances to customers

Loans to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank measures loans to customers at amortized cost. They are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

Impairment allowances are determined based on the forward-looking ECL models.

Cash and cash equivalents

Cash and cash equivalents are items, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, balances with Central Bank, highly liquid investment securities with a maturity of below 3 months and balances with other banks with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Investment securities

The “investment securities” caption in the 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.

Property, equipment, and right-of-use assets

Property and equipment are initially recognized at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Bank’s management. These assets are subsequently measured using the cost model and are stated at cost less subsequent depreciation and impairment losses.

Depreciation is recognized on reducing balance method, except for depreciation of right-of-use assets which is recognized using straight-line method over the period of respective lease liabilities, to write down the cost less estimated residual value of property and equipment. The following estimated useful lives are applied:

Furniture and equipment	5 years
Computers	4 years
Motor vehicles	4 years
Other assets	5 years
Leasehold improvements	over the term of the underlying lease
Right-of-use assets	over the term of the underlying lease

Material residual value estimates and estimates of useful life are updated as required, but at least annually, whether or not the asset is revalued.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss within “other income”.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any 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 Bank 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.

Leasehold improvements

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Repossessed collaterals

Repossessed collateral represents non-financial assets acquired by the Bank in settlement of overdue loans. These assets are initially recognized at lower of their previous carrying amount or fair value less costs to sell and are included in other assets. These assets are subsequently measured and accounted for in accordance with the accounting policies for these categories of assets.

Intangible assets

Intangible assets include acquired software used in operations. They are accounted for using the cost model whereby capitalized costs are amortized on a reducing balance method over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The useful life of software is 10 years.

Costs associated with maintaining computer software, i.e. expenditure relating to patches and other minor updates as well as their installation, is expensed as incurred.

The gain or loss arising on the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset, and is recognized in profit or loss within 'other income'.

Impairment of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Other assets

Other assets are measured at initial recognition at fair value and are subsequently measured at amortized cost using the effective interest rate method.

Loans and deposits from banks and financial institutions

Loans and deposits from banks and financial institutions are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Deposits from customers

Deposits from customers are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

Leases

The Bank 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.

Bank as a lessee

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

Lease liabilities

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

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

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

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

Other liabilities

Other liabilities are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

Share capital

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.

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

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

Provisions and contingent liabilities

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Bank and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provision for guarantee claims and other off-balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations. Expected recoveries are recognized by debiting customer accounts. Charge to profit and loss account is stated net of expected recoveries. Provisions are not recognized for future operating losses.

Provisions are discounted to their present values, where the time value of money is material.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

Retirement and other benefit obligations

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

Recognition of interest income and expense

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.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (In thousands of AZN, unless otherwise indicated)

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

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

Fee 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.

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

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognized as the related services are performed. If a loan commitment is not expected to result in the 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 Bank’s financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, foreign currency transactions, cash operations, settlements and credit card transactions.	Revenue related to transactions is recognized at the point in time when the transaction takes place.
	Transaction-based fees for interchange, foreign currency transactions are charged to the customer’s account when transaction takes place.	
	The Bank charges a 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, Bank recognized revenue over time.

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

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

Operating expenses

Operating expenses are recognized in profit or loss upon utilisation of the service or at the date of their origin.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

Current

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted or substantively enacted during the reporting period.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Azerbaijan Republic also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

Significant management judgements in applying accounting policies

The preparation of the financial statements requires management to make certain judgements, estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans to customers. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The following are significant management judgements in applying the accounting policies of the Bank that have the most significant effect on the financial statements. Critical estimation uncertainties are described below:

Judgements and estimates related to financial instruments

Judgements made in applying accounting policies that have most significant effects on the amount recognized in the financial statements of the period ended December 31, 2025 are as follows:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.
- Calculation of expected credit loss (ECL): changes to the assumptions and estimation uncertainties that have a significant impact on ECL for the year ended December 31, 2025 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

Assessment of significant increase in credit risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank’s existing risk management processes.

The assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on below mentioned factors. If any of the following factors indicate that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. The Bank has established thresholds for significant increases in credit risk relative to initial recognition.
2. Additional qualitative reviews have been performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
3. IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Management overlay is also used to align the macroeconomic factors with the current condition of portfolio based on best management estimate and information. The estimation of expected credit losses in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

In view of the very fluid and developing considerations, ascertaining the reliability and reasonableness of any forward-looking information is challenging. Notwithstanding this, the Bank continues to recognize the likely impact of this crisis on market credit environment and will continue to monitor the changes, including macroeconomic forecast and consider adjustments to ECL appropriately.

Definition of default

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk

Governance

In addition to the existing risk management framework, the Bank has established an internal committee to provide oversight to the IFRS 9 impairment process. The Committee comprises of senior representatives from Finance, Risk Management and Economics and is responsible for reviewing and approving key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in the financial statements. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- the viability of the customer’s business model and its capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligations;
- the realisable value of security (or other credit mitigations) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the borrower experiences a significant financial difficulty as evidenced by borrower’s financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganization; or
- the adverse change in the payment status of the borrower as a result of changes in the international or local economic conditions that impact the borrower.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

Recognition of deferred income tax assets

The extent to which deferred income tax assets can be recognized is based on an assessment of the probability of the Bank's future taxable income against which the deductible temporary differences can be utilized. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may substantially differ.

Useful lives of depreciable and amortizable assets

Management reviews the useful lives of depreciable and amortisable assets which include property and equipment, and intangible assets at each reporting date, based on the expected utility of the assets to the Bank. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

Impairment of property and equipment and intangible assets

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Bank's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Allowance for ECL on loans and advances to customers

Loans and advances to customers are measured at amortized cost less allowance for ECL. The estimation of allowances for ECL involves the exercise of significant judgment and estimates. The Bank estimates allowances for ECL with the objective of maintaining provisions at a level believed by management to be sufficient to absorb losses incurred in the Bank's loan portfolio. The calculation of provisions is mainly made using the ECL model and also time-based criteria determined by the applicable prudential regulations.

Provisions

Provisions are raised based on management's estimates from information available surrounding particular transactions. Prudence is exercised when estimating provisions so as not to materially overstate the Bank's reported net income and understate its liabilities.

Contingent liability arising from litigations

Due to the nature of its operations, the Bank may be involved in litigation arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are applied prospectively.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (In thousands of AZN, unless otherwise indicated)

Current taxes

Azerbaijani tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Bank may not coincide with that of management. As a result, tax authorities may challenge transactions and the Bank may be assessed additional taxes, penalties and interest, which can be significant. Periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the statement of cash flows include the following components:

	December 31, 2025	December 31, 2024
Cash and balances with the CBAR (Note 6)	127,083	97,815
Balances with other banks (Note 7)	19,916	33,219
Total cash and cash equivalents	146,999	131,034

6. CASH AND BALANCES WITH THE CBAR

	December 31, 2025	December 31, 2024
Cash in hand	22,072	15,606
Short-term deposits with the CBAR with original maturities of less than 90 days	17,303	40,514
Other balances with the CBAR	72,720	41,695
Financial instruments up to 3 months	14,988	-
Included in cash and cash equivalents (Note 5)	127,083	97,815
Mandatory minimum reserve deposit with the CBAR	37,748	33,754
Restricted balances with the CBAR	641	641
Total cash and balances with the CBAR	165,472	132,210

The mandatory minimum 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 depends on the level of customer funds attracted.

As at December 31, 2025, financial instruments up to 3 months consist of notes issued by the Ministry of Finance of the Republic of Azerbaijan and CBAR maturing through January 2026 in the amount of AZN 5,007 thousand and AZN 9,981 thousand, respectively.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (In thousands of AZN, unless otherwise indicated)

On November 20, 2023, the CBAR made certain updates on the calculation of mandatory reserves and credit institutions are required to maintain a non-interest-bearing 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 thousand (AZN 750,000 thousand for foreign currency);
- Whether the proportion of deposits from related parties to total deposits is below 20%;
- Whether the proportion of Bank-related deposits to total deposits is below 20%.

Since the Bank’s average deposits from legal entities in local currency are less than AZN 1,000,000 thousand and both the proportion of deposits from related parties and the segment of Bank-related deposits exceed 20% of total deposits, the applicable mandatory reserve rate was 12.5% for deposits in local currency and 15% for deposits in foreign currency as at December 31, 2025.

All cash and balances with the CBAR are in Stage 1 and their ECL is not material as at December 31, 2025 and 2024.

7. BALANCES WITH OTHER BANKS

	December 31, 2025	December 31, 2024
Correspondent accounts with non-resident banks	13,844	27,807
Correspondent accounts with resident banks	6,072	5,412
Included in cash and cash equivalents (Note 5)	19,916	33,219
Blocked correspondent accounts with resident banks	3,017	3,565
Blocked correspondent accounts with non-resident banks	-	106
Total balances with other banks	22,933	36,890

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

All balances with other banks are in Stage 1 and their ECL is not material as at December 31, 2025 and 2024.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

8. INVESTMENT SECURITIES

	December 31, 2025	December 31, 2024
Investment securities designated at amortized cost		
Notes of Central Bank of Azerbaijan	976	-
Notes of Ministry of Finance of the Republic of Azerbaijan	<u>1,082</u>	<u>1,055</u>
Total investment securities	<u>2,058</u>	<u>1,055</u>

As at December 31, 2025, accrued interest income included in investment securities amounted to AZN 84 thousand (December 31, 2024: 33 thousand).

All debt security balances are in Stage 1 as at December 31, 2025 and 2024.

For the purpose of ECL measurement investment securities are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognize any credit loss allowance for investment securities.

9. LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2025	December 31, 2024
Loans and advances	478,622	466,651
Accrued interest income	<u>2,527</u>	<u>1,634</u>
Gross carrying amount	<u>481,149</u>	<u>468,285</u>
Less: allowance for expected credit losses	<u>(16,226)</u>	<u>(19,511)</u>
Net carrying amount	<u>464,923</u>	<u>448,774</u>

Loans and advances to customers carry interest rates ranging from 3% to 25% per annum (December 31, 2024: 3% to 25%).

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (In thousands of AZN, unless otherwise indicated)

As at December 31, 2025, the Bank had five borrowers or groups of connected borrowers (December 31, 2024: five borrowers) with gross loan balances exceeding 10% of equity. The gross value of these loans as at December 31, 2025 was AZN 312,212 thousand (December 31, 2024: AZN 332,664 thousand).

	December 31, 2025		December 31, 2024	
	Amount	% of total gross loans	Amount	% of total gross loans
Loans to corporate customers				
Transportation	292,340	60.76	310,027	66.20
Construction	32,651	6.79	15,072	3.22
Trading and service	20,340	4.23	25,975	5.55
Agriculture	271	0.05	-	-
Total loans to corporate customers	345,602	71.83	351,074	74.97
Loans to individuals				
Mortgage loans	74,450	15.47	76,004	16.23
Consumer loans	61,097	12.70	41,207	8.80
Total loans to individuals	135,547	28.17	117,211	25.03
Gross loans to customers	481,149	100.00	468,285	100.00
Less: allowance for expected credit losses	(16,226)		(19,511)	
Net loans to customers	464,923		448,774	

Gross carrying amount

The following tables show reconciliations from the opening to the closing balances of gross carrying amount of loans and advances to customers.

	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to customers</i>				
As at January 1, 2025	426,054	40,384	1,847	468,285
New financial assets originated or purchased	99,241	-	-	99,241
Assets repaid or derecognized	(86,050)	(788)	(405)	(87,243)
Net change in accrued interest	832	8	53	893
Transfer to Stage 1	1,668	(1,139)	(529)	-
Transfer to Stage 2	(1,538)	1,793	(255)	-
Transfer to Stage 3	(446)	(198)	644	-
Write-offs	-	-	(27)	(27)
As at December 31, 2025	439,761	40,060	1,328	481,149

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to customers</i>				
As at January 1, 2024	428,418	41,994	3,818	474,230
New financial assets originated or purchased	85,570	-	-	85,570
Assets repaid or derecognized	(87,641)	(1,332)	873	(88,100)
Net change in accrued interest	192	11	(933)	(730)
Transfer to Stage 1	1,192	(887)	(305)	-
Transfer to Stage 2	(1,330)	1,430	(100)	-
Transfer to Stage 3	(347)	(832)	1,179	-
Write-offs	-	-	(2,685)	(2,685)
As at December 31, 2024	426,054	40,384	1,847	468,285

	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to corporate customers</i>				
As at January 1, 2025	312,951	38,093	30	351,074
New financial assets originated or purchased	37,435	-	-	37,435
Assets repaid or derecognized	(42,626)	(935)	(29)	(43,590)
Net change in accrued interest	689	(5)	(1)	683
As at December 31, 2025	308,449	37,153	-	345,602

	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to corporate customers</i>				
As at January 1, 2024	346,014	38,948	-	384,962
New financial assets originated or purchased	23,550	-	-	23,550
Assets repaid or derecognized	(56,546)	(875)	(2)	(57,423)
Net change in accrued interest	(36)	20	1	(15)
Transfer to Stage 3	(31)	-	31	-
As at December 31, 2024	312,951	38,093	30	351,074

	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to individuals</i>				
As at January 1, 2025	113,103	2,291	1,817	117,211
New financial assets originated or purchased	61,806	-	-	61,806
Assets repaid or derecognized	(43,424)	147	(376)	(43,653)
Net change in accrued interest	143	13	54	210
Transfer to Stage 1	1,668	(1,139)	(529)	-
Transfer to Stage 2	(1,538)	1,793	(255)	-
Transfer to Stage 3	(446)	(198)	644	-
Write-offs	-	-	(27)	(27)
As at December 31, 2025	131,312	2,907	1,328	135,547

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to individuals</i>				
As at January 1, 2024	82,404	3,046	3,818	89,268
New financial assets originated or purchased	62,020	-	-	62,020
Assets repaid or derecognized	(31,095)	(457)	875	(30,677)
Net change in accrued interest	228	(9)	(934)	(715)
Transfer to Stage 1	1,192	(887)	(305)	-
Transfer to Stage 2	(1,330)	1,430	(100)	-
Transfer to Stage 3	(316)	(832)	1,148	-
Write-offs	-	-	(2,685)	(2,685)
As at December 31, 2024	113,103	2,291	1,817	117,211

Allowance for expected credit losses

The following tables show reconciliations from the opening to the closing balances of the allowance for expected credit losses of loans and advances to customers.

	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to customers</i>				
As at January 1, 2025	(11,800)	(7,264)	(447)	(19,511)
New financial assets originated or purchased	(1,269)	-	-	(1,269)
Net remeasurement of allowance for expected credit losses	5,550	(920)	(103)	4,527
Transfer to Stage 1	(3)	2	1	-
Transfer to Stage 2	37	(44)	7	-
Transfer to Stage 3	446	199	(645)	-
Write-offs	-	-	27	27
As at December 31, 2025	(7,039)	(8,027)	(1,160)	(16,226)

	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to customers</i>				
As at January 1, 2024	(20,519)	(700)	(2,864)	(24,083)
New financial assets originated or purchased	(1,110)	-	-	(1,110)
Net remeasurement of allowance for expected credit losses	9,648	(6,624)	(27)	2,997
Transfer to Stage 1	(2)	2	-	-
Transfer to Stage 2	25	(27)	2	-
Transfer to Stage 3	158	85	(243)	-
Write-offs	-	-	2,685	2,685
As at December 31, 2024	(11,800)	(7,264)	(447)	(19,511)

	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to corporate customers</i>				
As at January 1, 2025	(11,392)	(7,218)	(6)	(18,616)
New financial assets originated or purchased	(638)	-	-	(638)
Net remeasurement of allowance for expected credit losses	5,724	(740)	6	4,990
As at December 31, 2025	(6,306)	(7,958)	-	(14,264)

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to corporate customers</i>				
As at January 1, 2024	(20,179)	(633)	-	(20,812)
New financial assets originated or purchased	(795)	-	-	(795)
Net remeasurement of allowance for expected credit losses	9,576	(6,585)	-	2,991
Transfer to Stage 3	6	-	(6)	-
As at December 31, 2024	(11,392)	(7,218)	(6)	(18,616)
	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to individuals</i>				
As at January 1, 2025	(408)	(46)	(441)	(895)
New financial assets originated or purchased	(631)	-	-	(631)
Net remeasurement of allowance for expected credit losses	(174)	(180)	(109)	(463)
Transfer to Stage 1	(3)	2	1	-
Transfer to Stage 2	37	(44)	7	-
Transfer to Stage 3	446	199	(645)	-
Write-offs	-	-	27	27
As at December 31, 2025	(733)	(69)	(1,160)	(1,962)
	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to individuals</i>				
As at January 1, 2024	(340)	(67)	(2,864)	(3,271)
New financial assets originated or purchased	(315)	-	-	(315)
Net remeasurement of allowance for expected credit losses	72	(39)	(27)	6
Transfer to Stage 1	(2)	2	-	-
Transfer to Stage 2	25	(27)	2	-
Transfer to Stage 3	152	85	(237)	-
Write-offs	-	-	2,685	2,685
As at December 31, 2024	(408)	(46)	(441)	(895)

Credit quality analysis

The following tables set out information about the credit quality of loans and advances to customers as at December 31, 2025 and 2024. Unless specially indicated, the amounts in the tables represent gross carrying amounts.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to customers</i>				
Not overdue	438,283	38,487	256	477,026
Overdue less than 30 days	1,478	426	10	1,914
Overdue 30-89 days	-	1,147	39	1,186
Overdue 90-179 days	-	-	296	296
Overdue 180-360 days	-	-	360	360
Overdue more than 360 days	-	-	367	367
Total gross loans to customers	439,761	40,060	1,328	481,149
Less: allowance for expected credit losses	(7,039)	(8,027)	(1,160)	(16,226)
Carrying amount as at December 31, 2025	432,722	32,033	168	464,923
	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to customers</i>				
Not overdue	424,671	39,461	1,096	465,228
Overdue less than 30 days	1,374	163	79	1,616
Overdue 30-89 days	9	760	30	799
Overdue 90-179 days	-	-	122	122
Overdue 180-360 days	-	-	176	176
Overdue more than 360 days	-	-	344	344
Total gross loans to customers	426,054	40,384	1,847	468,285
Less: allowance for expected credit losses	(11,800)	(7,264)	(447)	(19,511)
Carrying amount as at December 31, 2024	414,254	33,120	1,400	448,774
	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to corporate customers</i>				
Not overdue	308,449	37,153	-	345,602
Overdue less than 30 days	-	-	-	-
Overdue 30-89 days	-	-	-	-
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	-	-
Total gross loans to customers	308,449	37,153	-	345,602
Less: allowance for expected credit losses	(6,306)	(7,958)	-	(14,264)
Carrying amount as at December 31, 2025	302,143	29,195	-	331,338

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to corporate customers</i>				
Not overdue	312,951	38,093	-	351,044
Overdue less than 30 days	-	-	-	-
Overdue 30-89 days	-	-	30	30
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	-	-
Total gross loans to customers	312,951	38,093	30	351,074
Less: allowance for expected credit losses	(11,392)	(7,218)	(6)	(18,616)
Carrying amount as at December 31, 2024	301,559	30,875	24	332,458
	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to individuals</i>				
Not overdue	129,834	1,334	256	131,424
Overdue less than 30 days	1,478	426	10	1,914
Overdue 30-89 days	-	1,147	39	1,186
Overdue 90-179 days	-	-	296	296
Overdue 180-360 days	-	-	360	360
Overdue more than 360 days	-	-	367	367
Total gross loans to customers	131,312	2,907	1,328	135,547
Less: allowance for expected credit losses	(733)	(69)	(1,160)	(1,962)
Carrying amount as at December 31, 2025	130,579	2,838	168	133,585

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

	Stage 1	Stage 2	Stage 3	Total
<i>Loans and advances to individuals</i>				
Not overdue	111,720	1,368	1,096	114,184
Overdue less than 30 days	1,374	163	79	1,616
Overdue 30-89 days	9	760	-	769
Overdue 90-179 days	-	-	122	122
Overdue 180-360 days	-	-	176	176
Overdue more than 360 days	-	-	344	344
Total gross loans to customers	113,103	2,291	1,817	117,211
Less: allowance for expected credit losses	(408)	(46)	(441)	(895)
Carrying amount as at December 31, 2024	112,695	2,245	1,376	116,316

Collateral analysis

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

	Value of collateral held						
	Gross carrying amount	Loss allowance	Carrying amount	Cash and deposits	Movable property	Immovable property	Total
Loans to corporate customers							
Transportation	292,340	(13,155)	279,185	136,217	100,650	40,132	276,999
Construction	32,651	(602)	32,049	18,700	9,073	-	27,773
Trading and service	20,340	(507)	19,833	14,250	-	7,183	21,433
Agriculture	271	-	271	340	-	-	340
Loans to individuals							
Mortgage loans	74,450	(501)	73,949	-	-	107,385	107,385
Consumer loans	61,097	(1,461)	59,636	352	-	872	1,224
Total loans to customers	481,149	(16,226)	464,923	169,859	109,723	155,572	435,154

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

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

	Gross carrying amount	Loss allowance	Carrying amount	Cash and deposits	Value of collateral held		Total
					Movable property	Immovable property	
Loans to corporate customers							
Transportation	310,027	(17,097)	292,930	110,500	73,264	52,339	236,103
Construction	15,072	(717)	14,355	-	9,092	-	9,092
Trading and service	<u>25,975</u>	<u>(802)</u>	<u>25,173</u>	<u>20,365</u>	<u>-</u>	<u>37</u>	<u>20,402</u>
Loans to individuals							
Mortgage loans	76,004	(290)	75,714	-	-	105,637	105,637
Consumer loans	<u>41,207</u>	<u>(605)</u>	<u>40,602</u>	<u>19,430</u>	<u>-</u>	<u>1,268</u>	<u>20,698</u>
Total loans to customers	<u>468,285</u>	<u>(19,511)</u>	<u>448,774</u>	<u>150,295</u>	<u>82,356</u>	<u>159,281</u>	<u>391,932</u>

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)
(In thousands of AZN, unless otherwise indicated)

10. PROPERTY, EQUIPMENT, RIGHT-OF-USE AND INTANGIBLE ASSETS

	Furniture and equipment	Computers	Motor vehicles	Other assets	Leasehold improvements	Right-of-use assets	Intangible assets	Total
Gross carrying amount								
As at January 1, 2025	4,576	2,499	749	1,223	1,501	12,139	3,725	26,412
Additions	452	68	38	46	487	108	1,133	2,332
Disposals	(352)	(31)	(153)	(14)	-	-	-	(550)
Modifications	-	-	-	-	-	38	-	38
As at December 31, 2025	4,676	2,536	634	1,255	1,988	12,285	4,858	28,232
Accumulated depreciation and amortization								
As at January 1, 2025	3,593	1,772	421	867	697	7,166	2,121	16,637
Depreciation charge for the year	254	203	64	80	64	1,689	420	2,774
Disposals	(340)	(31)	(72)	(14)	-	-	-	(457)
As at December 31, 2025	3,507	1,944	413	933	761	8,855	2,541	18,954
Net carrying amount as at December 31, 2025	1,169	592	221	322	1,227	3,430	2,317	9,278
	Furniture and equipment	Computers	Motor vehicles	Other assets	Leasehold improvements	Right-of-use assets	Intangible assets	Total
Gross carrying amount								
As at January 1, 2024	4,285	2,359	737	1,181	1,469	12,234	3,139	25,404
Additions	291	140	173	42	32	-	586	1,264
Disposals	-	-	(161)	-	-	(338)	-	(499)
Modifications	-	-	-	-	-	243	-	243
As at December 31, 2024	4,576	2,499	749	1,223	1,501	12,139	3,725	26,412
Accumulated depreciation and amortization								
As at January 1, 2024	3,318	1,553	517	781	636	5,588	1,474	13,867
Depreciation charge for the year	275	219	59	86	61	1,709	647	3,056
Disposals	-	-	(155)	-	-	(131)	-	(286)
As at December 31, 2024	3,593	1,772	421	867	697	7,166	2,121	16,637
Net carrying amount as at December 31, 2024	983	727	328	356	804	4,973	1,604	9,775

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (In thousands of AZN, unless otherwise indicated)

As at December 31, 2025 and 2024, included in property and equipment were fully depreciated assets in the amount of AZN 2,444 thousand and AZN 2,004 thousand, respectively.

The Bank has recorded lease liabilities as per IFRS 16 ‘Leases’ at the present value of remaining lease payments in respect of buildings obtained on rent. For further details, please refer to Note 14.

There has been no impairment in the carrying amount of property and equipment as at December 31, 2025 (December 31, 2024: nil). No property and equipment have been pledged as security for liabilities.

11. OTHER ASSETS

	December 31, 2025	December 31, 2024
Other financial assets:		
Items in the course of settlement	5,389	4,159
Receivables from payment services/agents	3,056	1,603
Others	229	66
Less: Allowance for expected credit losses	-	(409)
Total other financial assets	8,674	5,419
Other non-financial assets:		
Prepayments for taxes	301	-
Prepayments for services	52	285
Prepayments for intangible assets	-	329
Prepayments for property and equipment	-	83
Others	81	29
Total other non-financial assets	434	726
Total other assets	9,108	6,145

Allowance for expected credit losses

	2025	2024
As at January 1	(409)	-
Charge for the year	-	(409)
Write-offs	409	-
As at December 31	-	(409)

12. LOANS AND DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

	December 31, 2025	December 31, 2024
Due to Azerbaijan Mortgage and Credit Guarantee Fund	73,403	74,524
Deposits from banks and financial institutions	7,091	6,564
Total loans and deposits from banks and financial institutions	80,494	81,088

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (In thousands of AZN, unless otherwise indicated)

As at December 31, 2025, AZN 73,403 thousand (December 31, 2024: AZN 74,524 thousand) out of loans from financial institutions represented funds borrowed from the Azerbaijan Mortgage and Credit Guarantee Fund, for granting long-term mortgage loans to individuals. Under this program, funds are made available to the Bank at an interest rate of 1-4% p.a. and the Bank further on lends these funds to eligible borrowers at rates not higher than 8% p.a. These borrowings mature between 2025 and 2054.

Deposits from banks and financial institutions carry 3% interest rate per annum as at December 31, 2025 (December 31, 2024: 3% per annum).

As at December 31, 2025 and 2024, accrued interest expense included in loans and deposits from banks and financial institutions amounted to AZN 226 thousand and AZN 263 thousand, respectively.

A reconciliation of the opening and closing amounts of loans and deposits from banks and financial institutions with relevant cash and non-cash changes from financing activities is stated below:

	2025	2024
January 1	81,088	78,312
Cash flows		
Proceeds	36,862	26,940
Repayment	(37,420)	(24,108)
Interest paid	(2,690)	(2,787)
Non-cash changes		
Interest expense	2,654	2,731
December 31	80,494	81,088

13. DEPOSITS FROM CUSTOMERS

	December 31, 2025	December 31, 2024
Term deposits	243,129	230,645
Current accounts	150,450	146,921
Accrued interest expense on deposits	479	584
Total deposits from customers	394,058	378,150

Term deposits

Term deposits are unsecured and carry interest rates ranging from 0.5% to 10.5% per annum as at December 31, 2025 (December 31, 2024: 0.5% to 9.75% per annum).

As at December 31, 2025, the Bank had 3 customers (December 31, 2024: 4 customers), whose balances exceeded 10% of equity. The total amount of these balances as at December 31, 2025 and 2024 was AZN 303,852 thousand and AZN 305,453 thousand.

Included in deposits from customers in the amount of AZN 38,984 thousand and AZN 36,574 thousand as at December 31, 2025 and 2024, respectively are deposits and current accounts secured by the Azerbaijan Deposit Insurance Fund.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

Analysis by industry for deposits from customers

	December 31, 2025	December 31, 2024
Individuals	306,152	293,092
Transport and communication	83,305	71,206
Trade	3,349	7,958
Construction	407	5,220
Others	845	674
Total deposits from customers	394,058	378,150

14. OTHER LIABILITIES

	December 31, 2025	December 31, 2024
Other financial liabilities:		
Items in the course of settlement	5,623	3,280
Lease liabilities	3,841	5,500
Guarantee liabilities	2,110	2,224
Others	955	530
Total other financial liabilities	12,529	11,534
Other non-financial liabilities		
Payable to state-owned organizations	280	250
Payable to employees	241	120
Tax payables	-	749
Total other non-financial liabilities	521	1,119
Total other liabilities	13,050	12,653

Lease liabilities

	December 31, 2025	December 31, 2024
Current portion	1,997	1,986
Non-current portion	1,844	3,514
Total lease liabilities	3,841	5,500

	Within 1 year	Between 1 and 5 years	Total
December 31, 2025			
Minimum lease payments	2,071	2,071	4,142
Finance charges	(74)	(227)	(301)
Net present value	1,997	1,844	3,841

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

	Within 1 year	Between 1 and 5 years	Total
December 31, 2024			
Minimum lease payments	2,063	4,125	6,188
Finance charges	<u>(77)</u>	<u>(611)</u>	<u>(688)</u>
Net present value	<u>1,986</u>	<u>3,514</u>	<u>5,500</u>

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

	2025	2024
January 1	<u>5,500</u>	<u>7,066</u>
Cash flows		
Repayment of principal	(1,697)	(1,593)
Interest paid	<u>(368)</u>	<u>(538)</u>
Non-cash changes		
Interest expense	368	538
Modification	38	243
Derecognition	<u>-</u>	<u>(216)</u>
December 31	<u>3,841</u>	<u>5,500</u>

Guarantee liabilities

Guarantee liabilities are measured at the higher of their amortized amount and the amount of allowance for expected credit loss.

	Guarantee liabilities			
	Stage 1	Stage 2	Stage 3	Total
Accrued interest on guarantees	75	-	-	75
Allowance for ECL on guarantees	<u>(2,185)</u>	<u>-</u>	<u>-</u>	<u>(2,185)</u>
Carrying amount as at December 31, 2025	<u>(2,110)</u>	<u>-</u>	<u>-</u>	<u>(2,110)</u>

	Guarantee liabilities			
	Stage 1	Stage 2	Stage 3	Total
Accrued interest on guarantees	-	-	-	-
Allowance for ECL on guarantees	<u>(2,224)</u>	<u>-</u>	<u>-</u>	<u>(2,224)</u>
Carrying amount as at December 31, 2024	<u>(2,224)</u>	<u>-</u>	<u>-</u>	<u>(2,224)</u>

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

The movement in the expected credit loss (ECL) for guarantees issued as at December 31, 2025 is as follows:

	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2025	(2,224)	-	-	(2,224)
Guarantees derecognized	836	-	-	836
New guarantees originated or purchased	(392)	-	-	(392)
Net remeasurement of allowance for expected credit losses	(405)	-	-	(405)
As at December 31, 2025	(2,185)	-	-	(2,185)

The movement in the expected credit loss (ECL) for guarantees issued as at December 31, 2024 is as follows:

	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2024	(2,730)	-	-	(2,730)
Guarantees derecognized	274	-	-	274
New guarantees originated or purchased	(246)	-	-	(246)
Net remeasurement of allowance for expected credit losses	478	-	-	478
As at December 31, 2024	(2,224)	-	-	(2,224)

The following table provides information on collateral securing guarantee liabilities by types of collateral as at December 31, 2025.

	Accrued interest	Allowance for ECL	Carrying amount	Cash and deposits	Immovable property	Total
Transportation	53	(1,601)	(1,548)	1,993	-	1,993
Construction	-	(200)	(200)	-	-	-
Trading and service	22	(380)	(358)	-	329	329
Communication	-	(4)	(4)	-	-	-
	75	(2,185)	(2,110)	1,993	329	2,322

The following table provides information on collateral securing guarantee liabilities by types of collateral as at December 31, 2024.

	Accrued interest	Allowance for ECL	Carrying amount	Cash and deposits	Immovable property	Total
Transportation	-	(1,256)	(1,256)	-	-	-
Construction	-	(757)	(757)	-	-	-
Trading and service	-	(205)	(205)	-	317	317
Communication	-	(6)	(6)	-	-	-
	-	(2,224)	(2,224)	-	317	317

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

15. SHARE CAPITAL

The authorized, issued and outstanding share capital comprises 1,133,775 ordinary shares as at December 31, 2025 (December 31, 2024: 1,003,905). All shares have a nominal value of AZN 154 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 Bank.

During the year ended December 31, 2025, dividends in the amount of AZN 10,035 thousand were declared and paid (December 31, 2024: AZN 7,056 thousand).

16. NET INTEREST INCOME

	December 31, 2025	December 31, 2024
Interest income calculated using the effective interest method		
Interest on loans and advances to customers	32,601	28,754
Interest on cash and cash equivalents	3,289	2,335
Interest on guarantees issued	1,181	1,285
Interest on investment securities	121	204
Total interest income calculated using the effective interest method	37,192	32,578
Interest expense calculated using the effective interest method		
Interest on deposits from customers	(8,777)	(8,575)
Interest on loans and deposits from banks and financial institutions	(2,654)	(2,731)
Interest on lease liabilities	(368)	(538)
Total interest expense calculated using the effective interest method	(11,799)	(11,844)
Total net interest income	25,393	20,734

17. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	December 31, 2025	December 31, 2024
Dealing, net	2,519	3,062
Translation differences, net	25	1
Total net gain on foreign exchange operations	2,544	3,063

18. FEE AND COMMISSION INCOME

	December 31, 2025	December 31, 2024
Plastic card operations	8,760	8,971
Tax-free operations	1,397	1,578
Cash operations	1,311	1,208
Transactions with foreign currencies	1,047	1,225
Settlements	822	1,030
Guarantee commission	132	73
Others	249	210
Total fee and commission income	13,718	14,295

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

19. FEE AND COMMISSION EXPENSE

	December 31, 2025	December 31, 2024
Plastic card operations	(6,907)	(6,197)
Settlements	(1,155)	(826)
Cash operations	(295)	(299)
Guarantee commission	(48)	(69)
Others	(129)	(62)
Total fee and commission expense	(8,534)	(7,453)

20. DEPRECIATION AND AMORTIZATION EXPENSE

	December 31, 2025	December 31, 2024
Depreciation of property, equipment and right-of-use assets	(2,354)	(2,409)
Amortization of intangible assets	(420)	(647)
Total depreciation and amortization expense	(2,774)	(3,056)

21. ADMINISTRATIVE AND GENERAL EXPENSES

	December 31, 2025	December 31, 2024
Personnel and related expenses	(8,777)	(7,918)
Advertising and marketing expenses	(4,988)	(4,041)
Software costs	(884)	(1,089)
Office supplies	(486)	(591)
Communication expenses	(418)	(331)
Payments to the Deposit Insurance Fund	(385)	(394)
Business travel and related expenses	(324)	(427)
Security expenses	(279)	(338)
Repairs and maintenance expenses	(228)	(127)
Legal and professional fees	(181)	(318)
Taxes other than income tax	(126)	(69)
Utility expenses	(110)	(214)
Rent expenses	(96)	(95)
Vehicle running costs	(73)	(51)
Insurance expenses	(15)	(17)
Others	(89)	(31)
Total administrative and general expenses	(17,459)	(16,051)

22. RECOVERY OF EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

	December 31, 2025	December 31, 2024
Recovery of expected credit losses on loans and advances to customers	3,258	1,887
Recovery of expected credit losses on guarantees issued	39	506
Charge of expected credit losses on other financial assets	-	(409)
Total recovery of expected credit losses on financial assets	3,297	1,984

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

23. TAXATION

Azerbaijan commercial and tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transaction may be challenged by the tax authorities, and as a result the Bank may be assessed for additional tax, penalties and interest. The management believes that the Bank is in substantial compliance with tax legislation.

	December 31, 2025	December 31, 2024
Current income tax expense	(3,143)	(2,697)
Deferred income tax expense recognized in the current year	(378)	(248)
Revision of prior period tax estimate	-	(642)
Income tax expense	(3,521)	(3,587)

Relationship between tax expense and accounting profit

	December 31, 2025	December 31, 2024
Profit before income tax	16,390	13,622
Theoretical tax charge at the statutory tax rate 20%	(3,278)	(2,724)
Tax effect of permanent differences	(243)	(221)
Revision of prior period tax estimate	-	(642)
Income tax expense	(3,521)	(3,587)

Deferred income tax assets

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

	January 1, 2025	(Debited)/ credited to profit or loss	December 31, 2025
Property, equipment and right-of-use assets	1,152	338	1,490
Loans and advances to customers	1,294	(412)	882
Balances with other banks	(74)	35	(39)
Loans and deposits from banks and financial institution	-	(16)	(16)
Other liabilities	(779)	(233)	(1,012)
Other assets	85	(90)	(5)
Net deferred income tax asset	1,678	(378)	1,300

	January 1, 2024	Credited/ (debited) to profit or loss	December 31, 2024
Loans and advances to customers	1,651	(357)	1,294
Property, equipment and right-of-use assets	784	368	1,152
Other assets	-	85	85
Balances with other banks	(77)	3	(74)
Other liabilities	(432)	(347)	(779)
Net deferred income tax asset	1,926	(248)	1,678

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

24. RELATED PARTIES

The Bank, in the normal course of business, carries on business with other entities that fall within the definition of related party contained in IFRS Accounting Standards as issued by the IASB. These transactions are carried out in the normal course of business and are measured at exchange amounts, being the amounts agreed by both parties. For the purpose of these financial statements, entities are considered to be related to the Bank if it has the ability, directly or indirectly, to exercise significant influence over the entities in making financial and operating decisions, or vice versa, or where the Bank and other entity is subject to common control or significant influence, key management personnel and other related parties. Details of related party transactions entered into during the year are set out below.

Amounts included in the statement of financial position

Loans and advances to customers

	December 31, 2025	December 31, 2024
Outstanding principal		
(a) Shareholders	464	12,850
(b) Entities under common control	270	-
(c) Key management personnel	278	339
(d) Other related parties	1,017	974
	<u>2,029</u>	<u>14,163</u>
Accrued interest income		
(a) Shareholders	2	60
(b) Entities under common control	1	-
(c) Key management personnel	1	2
(d) Other related parties	5	4
	<u>9</u>	<u>66</u>
Allowance for expected credit losses		
(a) Shareholders	(9)	(5)
(b) Entities under common control	-	-
(d) Other related parties	(3)	(3)
	<u>(12)</u>	<u>(8)</u>
Total	<u>2,026</u>	<u>14,221</u>

Property, equipment and right-of-use assets

	December 31, 2025	December 31, 2024
Right-of-use assets		
(a) Shareholders	1,536	2,303
(b) Entities under common control	990	1,486
Total	<u>2,526</u>	<u>3,789</u>

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

Deposits from customers

	December 31, 2025	December 31, 2024
Term deposits		
(a) Shareholders	215,650	203,486
(c) Key management personnel	40	-
(d) Other related parties	-	-
	<u>215,690</u>	<u>203,486</u>
Current accounts		
(a) Shareholders	16,087	17,726
(b) Entities under common control	656	63
(c) Key management personnel	48	18
(d) Other related parties	225	174
	<u>17,016</u>	<u>17,981</u>
Accrued interest expense on term deposits		
(a) Shareholders	419	541
(d) Other related parties	-	-
	<u>419</u>	<u>541</u>
Total	<u><u>233,125</u></u>	<u><u>222,008</u></u>

Other liabilities

	December 31, 2025	December 31, 2024
Guarantee liabilities		
(b) Entities under common control	-	-
	<u>-</u>	<u>-</u>
Lease liabilities		
(a) Shareholders	1,822	2,617
(b) Entities under common control	1,065	1,542
	<u>2,887</u>	<u>4,159</u>
Total	<u><u>2,887</u></u>	<u><u>4,159</u></u>

Amounts included in the statement of profit or loss and other comprehensive income

	December 31, 2025	December 31, 2024
Interest income		
(a) Shareholders	17	545
(b) Entities under common control	2	15
(c) Key management personnel	18	18
(d) Other related parties	63	118
	<u>100</u>	<u>696</u>
Interest expense		
(a) Shareholders	(8,020)	(8,029)
(b) Entities under common control	(93)	(138)
(d) Other related parties	-	-
	<u>(8,113)</u>	<u>(8,167)</u>

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (In thousands of AZN, unless otherwise indicated)

	December 31, 2025	December 31, 2024
Administrative and general expenses		
(a) Shareholders	(788)	(830)
(b) Entities under common control	(81)	(280)
(c) Key management personnel	(916)	(880)
Total	(1,785)	(1,990)
Depreciation and amortization expense		
(a) Shareholders	(768)	(768)
(b) Entities under common control	(495)	(476)
Total	(1,263)	(1,244)
Off-balance		
	December 31, 2025	December 31, 2024
Guarantees issued		
(b) Entities under common control	-	17
Total	-	17
Unused credit lines		
(a) Shareholders	36	1,599
(b) Entities under common control	-	-
(c) Key management personnel	68	-
(d) Other related parties	286	73
Total	390	1,672

25. CONTINGENCIES AND COMMITMENTS

In the normal course of business, the Bank is party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position. The Bank uses the same credit control and management policies in undertaking off-balance sheet contingent liabilities and commitments as it does for on-balance sheet operations.

	December 31, 2025	December 31, 2024
Guarantees issued	51,300	46,919
Unused credit lines	2,103	5,415
Total	53,403	52,334

ECL for guarantees issued is disclosed in Note 14. At the reporting date, the Bank has no major capital commitments (December 31, 2024: nil).

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

Operating environment

The Bank’s operations are conducted in the Republic of Azerbaijan. The Bank is exposed to the economic and financial markets of Azerbaijan, which display characteristics of an emerging market. The legal, tax, and regulatory frameworks continue to develop but are subject to varying interpretations and frequent changes, which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Azerbaijan.

The global economy continued to adjust during 2025 following earlier disruptions to supply chains, geopolitical tensions related to the conflict between the Russian Federation and Ukraine and changes in global demand patterns. Inflationary pressures moderated compared to prior years, although commodity prices remained sensitive to geopolitical developments and shifts in global trade flows.

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

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

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

The future economic growth of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial, and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. Management is unable to predict all developments in the economic environment that could impact the Bank’s operations and, consequently, cannot determine what effect, if any, they could have on the financial position of the Bank.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

Compliance with regulatory ratios

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

- ratio of maximum credit limit for aggregate loan demands of a single borrower or group of related borrowers to total Tier 1 Capital – maximum 25%.
- ratio of maximum credit limit for unsecured or partially secured loan demands of a single borrower or group of related borrowers to total Tier 1 Capital – maximum 10%.

The Bank has submitted a letter to the supervisory authority, along with an action plan outlining measures to rectify the issue by June 30, 2029. Management believes that this noncompliance with regulatory ratios will not result in any material sanctions from the CBAR.

26. CAPITAL ADEQUACY AND MANAGEMENT

Capital management policies and procedures

Capital management objectives are to ensure that there is sufficient capital to meet the capital requirements of the Bank as determined by the underlying business strategy and the minimum requirements of the regulator. The capital management process is governed by the Supervisory Board. The Supervisory Board is responsible for managing the Bank’s capital position in line with internal as well as regulatory requirements. The Supervisory Board also reviews the volume and mix of the Bank’s assets, liabilities and funding sources in light of liquidity, capital, risk and profitability considerations. The Bank’s capital management seeks:

- to comply with the capital requirements set by the regulators and comparable to the peers;
- to actively manage the supply of capital costs and increase capital velocity;
- to increase strategic and tactical flexibility in the deployment of capital to allow for the timely reallocation of capital;
- to improve the liquidity of the Bank’s assets to allow for an optimal deployment of the Bank’s resources;
- to protect the Bank against unexpected events and maintain strong ratings;
- to safeguard the Bank’s ability to continue as a going concern so that it can continue to provide adequate return to shareholders;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- to achieve low overall cost of capital with appropriate mix of capital elements.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (In thousands of AZN, unless otherwise indicated)

Capital adequacy ratio

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain amounts and ratios of total and tier 1 capital to risk weighted assets. The capital to risk-weighted assets ratio was calculated in accordance with the guidelines issued by regulator on capital adequacy using the principles employed by the Basel Committee by applying following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses.

	December 31, 2025 (unaudited)	December 31, 2024 (unaudited)
Tier 1 capital before deductions		
Share capital	174,601	154,601
Retained earnings – as per prudential regulation	4,213	4,570
Deductions		
Intangible assets	(2,447)	(1,734)
Total tier 1 capital	176,367	157,437
Tier 2 capital		
Reserves	4,742	5,549
Current year profit	11,356	9,684
Total tier 2 capital	16,098	15,233
Total regulatory capital held	192,465	172,670
Total risk-weighted assets	401,102	467,658
Tier 1 capital ratio (%)	43.97%	33.66%
Capital adequacy ratio (%)	47.98%	36.92%

The minimum requirement is 5.5% for tier 1 capital ratio (December 31, 2024: 5%) and 10.5% for capital adequacy ratio (December 31, 2024: 10%).

27. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

	December 31, 2025	December 31, 2024
Financial assets:		
Cash and balances with the CBAR (amortized cost)	165,472	132,210
Balances with other banks (amortized cost)	22,933	36,890
Investment securities (amortized cost)	2,058	1,055
Loans and advances to customers (amortized cost)	464,923	448,774
Other financial assets (amortized cost)	8,674	5,419
Total financial assets	664,060	624,348
Financial liabilities:		
Loans and deposits from banks and financial institutions (amortized cost)	80,494	81,088
Deposits from customers (amortized cost)	394,058	378,150
Other financial liabilities (amortized cost)	12,529	11,534
Total financial liabilities	487,081	470,772

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

28. FINANCIAL INSTRUMENT RISK

Fair value measurement of financial instruments

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. Differences can therefore arise between the carrying values under the historical cost method and fair value estimates. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. As per management's estimates fair value of the Bank's financial instruments that are not carried at fair value in the statement of financial position is stated on below:

	December 31, 2025		December 31, 2024	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and balances with the CBAR	165,472	165,472	132,210	132,210
Balances with other banks	22,933	22,933	36,890	36,890
Investment securities	2,058	2,142	1,055	1,013
Loans and advances to customers	464,923	464,923	448,774	448,774
Other financial assets	8,674	8,674	5,419	5,419
Total financial assets	664,060	664,144	624,348	624,306
Financial liabilities:				
Loans and deposits from banks and financial institutions	80,494	80,494	81,088	81,088
Deposits from customers	394,058	394,058	378,150	378,150
Other liabilities	12,529	12,529	11,534	11,534
Total financial liabilities	487,081	487,081	470,772	470,772

Sufficient financial assets are available to meet the financial liabilities.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (In thousands of AZN, unless otherwise indicated)

Assets and liabilities in the statement of financial position measured at fair value are grouped into three levels of fair value hierarchy. This Banking is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the Levels within the hierarchy of financial assets and liabilities as at December 31, 2025 and December 31, 2024:

	Level 1	Level 2	Level 3	Total
December 31, 2025				
Assets for which fair values are disclosed:				
Cash and balances with the CBAR	165,472	-	-	165,472
Balances with other banks	-	-	22,933	22,933
Investment securities	-	2,142	-	2,142
Loans and advances to customers	-	-	464,923	464,923
Other financial assets	-	-	8,674	8,674
Liabilities for which fair values are disclosed:				
Loans and deposits from banks and financial institutions	-	-	80,494	80,494
Deposits from customers	-	-	394,058	394,058
Other financial liabilities	-	-	12,529	12,529
December 31, 2024				
Assets for which fair values are disclosed:				
Cash and balances with the CBAR	132,210	-	-	132,210
Balances with other banks	-	-	36,890	36,890
Investment securities	-	1,013	-	1,013
Loans and advances to customers	-	-	448,774	448,774
Other financial assets	-	-	5,419	5,419
Liabilities for which fair values are disclosed:				
Loans and deposits from banks and financial institutions	-	-	81,088	81,088
Deposits from customers	-	-	378,150	378,150
Other financial liabilities	-	-	11,534	11,534

Risk management objectives and policies

The Bank’s business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank’s risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice. The Bank’s aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank’s financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

The Bank’s risk management is coordinated at its head office, in close cooperation with the Supervisory Board. The Supervisory Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non-derivative financial instruments.

The Bank is exposed to various risks in relation to financial instruments. The Bank’s financial assets and liabilities by category are summarized in Note 26. The main types of risks are market risk, credit risk, liquidity risk and operational risk.

Market risk

Market risk is the risk that market prices and rates can change and this can have an adverse effect on profitability and/or capital. The Bank is exposed to number of market risks relating to its daily operations, arising from open positions in interest rates and currency, all of which are exposed to general and specific market movements. For the purpose of market risk, management identifies its main market risk factors as equity position risk, interest rate risk and foreign currency risk. The predominant market risk is foreign currency risk and interest rate risk. The Bank is not exposed significantly to equity position risk as it has no capital market operations.

The Bank, as a matter of policy, seeks to identify, measure, monitor and control market risks in order to protect against adverse movement in market prices and rates and to optimize the risk/return profile of its open positions. The Supervisory Board mainly oversees development and implementation of market risk policy and risk measuring/monitoring methodology and review and reporting of market risks against limits.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk is the risk that the earnings and/or capital will fluctuate due to changes in foreign exchange rates. The Bank’s foreign exchange exposure consists of foreign currency cash on hand, balances with other banks, loans and advances to customers, loans and deposits from banks and financial institutions and deposits from customers.

The Bank manages its foreign exchange exposures by matching foreign currency assets and liabilities. Net open position and counterparty limits have been established to limit risk concentration.

Foreign currency-denominated financial assets and liabilities which expose the Bank to currency risk are disclosed below. The amounts shown are those reported to key management personnel translated into AZN at the closing rate:

	AZN	USD	EUR	Other	Total
December 31, 2025					
Financial assets:					
Cash and balances with the CBAR	52,578	58,996	53,191	707	165,472
Balances with other banks	-	9,852	12,347	734	22,933
Investment securities	2,058	-	-	-	2,058
Loans and advances to customers	239,779	224,850	294	-	464,923
Other financial assets	8,245	279	135	15	8,674
Total financial assets	302,660	293,977	65,967	1,456	664,060
Financial liabilities:					
Loans and deposits from banks and financial institutions	76,181	4,307	6	-	80,494
Deposits from customers	55,388	271,922	65,444	1,304	394,058
Other financial liabilities	9,778	2,704	44	3	12,529
Total financial liabilities	141,347	278,933	65,494	1,307	487,081
Open currency position	161,313	15,044	473	149	176,979

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (In thousands of AZN, unless otherwise indicated)

	AZN	USD	EUR	Other	Total
December 31, 2024					
Financial assets:					
Cash and balances with the CBAR	60,729	31,494	39,440	547	132,210
Balances with other banks	-	14,727	20,284	1,879	36,890
Investment securities	1,055	-	-	-	1,055
Loans and advances to customers	223,784	224,957	33	-	448,774
Other financial assets	4,403	821	195	-	5,419
Total financial assets	289,971	271,999	59,952	2,426	624,348
Financial liabilities:					
Loans and deposits from banks and financial institutions	76,641	4,440	7	-	81,088
Deposits from customers	52,518	263,670	59,665	2,297	378,150
Other financial liabilities	10,016	1,243	275	-	11,534
Total financial liabilities	139,175	269,353	59,947	2,297	470,772
Open currency position	150,796	2,646	5	129	153,576

The following table illustrates the sensitivity of profit/(loss) before tax and equity in regard to the Bank's financial assets and financial liabilities and the USD/AZN exchange rate and EUR/AZN exchange rate “all other things being equal”. It assumes a $\pm 10\%$ change of the USD/AZN exchange rate for the year ended at December 31, 2025 (December 31, 2024: $\pm 10\%$). A $\pm 10\%$ change is considered for the EUR/AZN exchange rate (December 31, 2024: $\pm 10\%$). The sensitivity analysis is based on the Bank's foreign currency financial instruments held at each reporting date.

If the AZN had weakened against the USD by 10% (December 31, 2024: 10%) and EUR by 10% (December 31, 2024: 10%) respectively then this would have had the following impact:

	Profit before income tax			Equity		
	USD	EUR	Other	USD	EUR	Other
December 31, 2025	1,504	47	15	1,204	38	12
December 31, 2024	265	-	13	212	-	10

If the AZN had strengthened against the USD by 10% (December 31, 2024: 10%) and the EUR by 10% (December 31, 2024: 10%) respectively, then this would have had the following impact:

	Profit before income tax			Equity		
	USD	EUR	Other	USD	EUR	Other
December 31, 2025	(1,504)	(47)	(15)	(1,204)	(38)	(12)
December 31, 2024	(265)	-	(13)	(212)	-	(10)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Bank's exposure to foreign currency risk.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Supervisory Board sets limits on the level of mismatch of interest rate re-pricing and value at risk that may be undertaken, which is monitored daily by the Risk Management Specialist.

The table on below page illustrates the sensitivity of profit/(loss) before tax and equity to a reasonably possible change in interest rates of $\pm 1\%$ (December 31, 2024: $\pm 1\%$). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the interest-bearing financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	Profit before income tax		Equity	
December 31, 2025				
Financial assets:				
Cash and balances with the CBAR	322	(322)	258	(258)
Balances with other banks	199	(199)	159	(159)
Investment securities	20	(20)	16	(16)
Loans and advances to customers	4,624	(4,624)	3,699	(3,699)
Financial liabilities:				
Loans and deposits from banks and financial institutions	(791)	791	(633)	633
Deposits from customers	(2,431)	2,431	(1,945)	1,945
Other liabilities	(38)	38	(30)	30
	1,905	(1,905)	1,524	(1,524)

	Profit before income tax		Equity	
December 31, 2024				
Financial assets:				
Cash and balances with the CBAR	405	(405)	324	(324)
Balances with other banks	332	(332)	266	(266)
Investment securities	106	(106)	85	(85)
Loans and advances to customers	4,488	(4,488)	3,590	(3,590)
Financial liabilities:				
Loans and deposits from banks and financial institutions	(804)	804	(643)	643
Deposits from customers	(2,312)	2,312	(1,850)	1,850
Other liabilities	(55)	55	(44)	44
	2,160	(2,160)	1,728	(1,728)

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

The following tables illustrate the level of mismatch of interest rate re-pricing:

	Effective average interest rate	Within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-interest bearing	Total
December 31, 2025								
Financial assets:								
Cash and balances with the CBAR	6.24%	32,248	-	-	-	-	133,224	165,472
Balances with other banks	-	19,916	-	-	-	-	3,017	22,933
Investment securities	8.17%	-	-	1,974	-	-	84	2,058
Loans and advances to customers	7.29%	3,689	7,553	67,452	260,377	123,325	2,527	464,923
Other financial assets	-	-	-	-	-	-	8,674	8,674
		55,853	7,553	69,426	260,377	123,325	147,526	664,060
Financial liabilities:								
Loans and deposits from banks and financial institutions	3.45%	6,188	580	2,638	14,100	55,585	1,403	80,494
Deposits from customers	3.62%	94	19,586	47,438	176,011	-	150,929	394,058
Other financial liabilities	6.22%	173	342	1,483	1,844	-	8,687	12,529
		6,455	20,508	51,559	191,955	55,585	161,019	487,081
Net interest gap		49,398	(12,955)	17,867	68,422	67,740	(13,493)	176,979
Cumulative interest gap		49,398	36,443	54,310	122,732	190,472	176,979	
	Effective average interest rate	Within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-interest bearing	Total
December 31, 2024								
Financial assets:								
Cash and balances with the CBAR	6.25%	40,514	-	-	-	-	91,696	132,210
Balances with other banks	-	33,219	-	-	-	-	3,671	36,890
Investment securities	9.10%	33	-	-	1,022	-	-	1,055
Loans and advances to customers	6.43%	3,947	5,680	33,681	291,492	113,974	-	448,774
Other financial assets	-	-	-	-	-	-	5,419	5,419
		77,713	5,680	33,681	292,514	113,974	100,786	624,348
Financial liabilities:								
Loans and deposits from banks and financial institutions	3.40%	1,676	5,028	1,818	3,981	67,936	649	81,088
Deposits from customers	3.65%	669	2,995	28,731	198,834	-	146,921	378,150
Other financial liabilities	6.65%	172	340	1,474	3,515	-	6,033	11,534
		2,517	8,363	32,023	206,330	67,936	153,603	470,772
Net interest gap		75,196	(2,683)	1,658	86,184	46,038	(52,817)	153,576
Cumulative interest gap		75,196	72,513	74,171	160,355	206,393	153,576	

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (In thousands of AZN, unless otherwise indicated)

Credit risk

Credit risk is the risk that arises from the potential that an obligor is either unwilling to perform an obligation or its ability to perform such obligation is impaired resulting in economic loss to the Bank. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties and continually assessing the creditworthiness of counter parties.

The focus of the Bank’s commercial lending continues to be short-term trade-related financing on a secured and self-liquidating basis. The Bank will also continue its emphasis on diversification of its assets to avert large single industry or Bank exposure. A significant portion of loans is extended to related parties and the management considered minimal credit risk for these financing.

The Bank has built and maintained a sound loan portfolio in terms of a well-defined credit policy. The Bank’s credit evaluation system comprises of well-designed credit appraisal, sanctioning and review procedures for the purpose of emphasizing prudence in its lending activities and ensuring quality of asset portfolio. Special attention is paid to the management of non-performing loans. A “watch list” procedure is also functioning which identifies loans showing early warning signals of becoming non-performing.

The Bank is further diversifying its asset portfolio by offering, Consumer Banking Products (Personal Finance, Business Finance, Mortgage Finance and Auto Financing etc.) to its customers, as it provides better margins than traditional business lending opportunities, whilst spreading the risk over a large number of individual customers.

The Bank has developed an internal rating model, which allows it to determine the rating of counterparties. The rating of corporate borrowers is based on an analysis of the financial ratios of the borrower, and an analysis of the market and industry sector, in which the borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and borrower's market share.

The application of the internal rating model results in a standardized approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.

The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Bank revises the model when deficiencies are identified.

The Bank applies internal rating methodologies to specific corporate loans and Banks of retail and small business loans, which incorporate various underlying master scales that are different from those used by international rating agencies. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the statement of financial position. As such, more detailed information is not being presented.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. The credit risk exposure of the Bank is concentrated within the Azerbaijan Republic. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank’s risk management policy are not breached.

The following table details the gross carrying value of financial assets and those that are impaired:

	Gross carrying amount	Allowance for ECL	Net carrying amount
December 31, 2025			
Cash and balances with the CBAR	165,472	-	165,472
Balances with other banks	22,933	-	22,933
Investment securities	2,058	-	2,058
Loans and advances to customers	481,149	(16,226)	464,923
Other financial assets	8,674	-	8,674
Total	680,286	(16,226)	664,060

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)** *(In thousands of AZN, unless otherwise indicated)*

	Gross carrying amount	Allowance for ECL	Net carrying amount
December 31, 2024			
Cash and balances with the CBAR	132,210	-	132,210
Balances with other banks	36,890	-	36,890
Investment securities	1,055	-	1,055
Loans and advances to customers	468,285	(19,511)	448,774
Other financial assets	5,828	(409)	5,419
Total	644,268	(19,920)	624,348

Net exposure of credit risk

The Bank’s net exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

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

	Exposure before collateral	Gross collateral pledged	Net exposure
December 31, 2025			
Cash and balances with the CBAR	165,472	-	165,472
Balances with other banks	22,933	-	22,933
Investment securities	2,058	-	2,058
Loans and advances to customers	464,923	(435,154)	29,769
Other financial assets	8,674	-	8,674
Guarantees issued	51,300	(2,322)	48,978
Unused credit lines	2,103	-	2,103
Total	717,463	(437,476)	279,987

	Exposure before collateral	Gross collateral pledged	Net exposure
December 31, 2024			
Cash and balances with the CBAR	132,210	-	132,210
Balances with other banks	36,890	-	36,890
Investment securities	1,055	-	1,055
Loans and advances to customers	448,774	(391,932)	56,842
Other financial assets	5,419	-	5,419
Guarantees issued	46,919	(317)	46,602
Unused credit lines	5,415	-	5,415
Total	676,682	(392,249)	284,433

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

Off-balance sheet risk

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

Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and Banks, and to industries and countries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector are approved by the Board of Directors. Actual exposures against limits are monitored regularly. Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default. Some other specific control and mitigation measures are outlined below:

Collateral

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

- For commercial lending, charges over real estate properties, moveable assets, deposits and guarantees; and
- For retail lending, mortgages over residential properties and moveable assets.

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

Lending limits

The Bank maintains strict control limits over its lending to customers. This credit risk exposure is managed as part of the overall lending limits with customers and is approved by the Credit Committee and ultimately by the Supervisory Board of the Bank. Collateral or other security is not always obtained for credit risk exposures on loans to customers and therefore, the Bank is exposed to settlement risk on the uncollateralized portion of the loans.

Financial covenants (for credit-related commitments)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees carry the same credit risk as loans. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants). The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters. The Supervisory Board monitors the maintenance of statement of financial position liquidity ratios, depositors' concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits and liquidity contingency plans. Moreover, core retail deposits (current accounts and saving accounts) form a considerable part of the Bank's overall funding and significant importance is attached to the stability and growth of these deposits.

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) (In thousands of AZN, unless otherwise indicated)

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

	Up to demand or within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total gross amount outflow	Total carrying amount
December 31, 2025							
Financial liabilities:							
Loans and deposits from banks and financial institutions	7,803	1,004	4,548	24,246	91,546	129,147	80,494
Deposits from customers	151,758	21,021	52,717	179,847	-	405,343	394,058
Other financial liabilities	8,859	345	1,553	2,071	-	12,828	12,529
Total financial liabilities	168,420	22,370	58,818	206,164	91,546	547,318	487,081

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

	Up to demand or within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total gross amount outflow	Total carrying amount
December 31, 2024							
Financial liabilities:							
Loans and deposits from banks and financial institutions	2,552	5,461	3,732	14,142	105,099	130,986	81,088
Deposits from customers	148,292	4,391	33,599	205,390	-	391,672	378,150
Other financial liabilities	5,772	344	1,547	4,125	-	11,788	11,534
Total financial liabilities	156,616	10,196	38,878	223,657	105,099	534,446	470,772

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

	Up to demand or within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
December 31, 2025						
Financial assets:						
Cash and balances with the CBAR	165,472	-	-	-	-	165,472
Balances with other banks	22,933	-	-	-	-	22,933
Investment securities	84	-	1,974	-	-	2,058
Loans and advances to customers	6,216	7,553	67,452	260,377	123,325	464,923
Other financial assets	8,674	-	-	-	-	8,674
Total financial assets	203,379	7,553	69,426	260,377	123,325	664,060
Financial liabilities:						
Loans and deposits from banks and financial institutions	7,591	580	2,638	14,100	55,585	80,494
Deposits from customers	151,023	19,586	47,438	176,011	-	394,058
Other financial liabilities	8,860	342	1,483	1,844	-	12,529
Total financial liabilities	167,474	20,508	51,559	191,955	55,585	487,081
Net liquidity gap	35,905	(12,955)	17,867	68,422	67,740	176,979
Cumulative liquidity gap	35,905	22,950	40,817	109,239	176,979	
	Up to demand or within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
December 31, 2024						
Financial assets:						
Cash and balances with the CBAR	132,210	-	-	-	-	132,210
Balances with other banks	36,890	-	-	-	-	36,890
Investment securities	33	-	-	1,022	-	1,055
Loans and advances to customers	3,947	5,680	33,681	291,492	113,974	448,774
Other financial assets	5,419	-	-	-	-	5,419
Total financial assets	178,499	5,680	33,681	292,514	113,974	624,348
Financial liabilities:						
Loans and deposits from banks and financial institutions	2,325	5,028	1,818	3,981	67,936	81,088
Deposits from customers	147,590	2,995	28,731	198,834	-	378,150
Other financial liabilities	6,206	340	1,474	3,514	-	11,534
Total financial liabilities	156,121	8,363	32,023	206,329	67,936	470,772
Net liquidity gap	22,378	(2,683)	1,658	86,185	46,038	153,576
Cumulative liquidity gap	22,378	19,695	21,353	107,538	153,576	

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued)

(In thousands of AZN, unless otherwise indicated)

Management believes that the related party deposits will subsequently be prolonged for a further period, which will cover the liquidity gap arising at the end of the year.

Operational risk

The Bank’s operational risk is related to possible losses which may be incurred as a result of failures occurring in the Bank’s day-to-day operations, such as breakdown in electronic and telecommunication, routines or other systems – additional factors being insufficient levels of professional skills or human errors. In order to keep the Bank’s operational risks to a minimum level, various tools are used to manage operational risk using a common categorization of risk.

The Bank’s approach to operational risk is not designed to eliminate risk, rather, to contain it within the acceptable levels, as determined by senior management, and to ensure that they have sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses.

Concentration of financial instruments

The majority of concentration of financial assets and liabilities related to banking activities is within the boundaries of Azerbaijan Republic. The following is the detail of geographical concentration of financial instruments:

	Azerbaijan Republic	CIS countries	OECD countries	Other countries	Total
December 31, 2025					
Financial assets:					
Cash and balances with the CBAR	165,472	-	-	-	165,472
Balances with other banks	9,089	4,672	8,858	314	22,933
Investment securities	2,058	-	-	-	2,058
Loans and advances to customers	435,727	29,196	-	-	464,923
Other financial assets	8,674	-	-	-	8,674
Total financial assets	621,020	33,868	8,858	314	664,060
Financial liabilities:					
Loans and deposits from banks and financial institutions	80,494	-	-	-	80,494
Deposits from customers	390,314	1,658	784	1,302	394,058
Other financial liabilities	12,529	-	-	-	12,529
Total financial liabilities	483,337	1,658	784	1,302	487,081
Net geographical gap	137,683	32,210	8,074	(988)	176,979

	Azerbaijan Republic	CIS countries	OECD countries	Other countries	Total
December 31, 2024					
Financial assets:					
Cash and balances with the CBAR	132,210	-	-	-	132,210
Balances with other banks	8,977	8,630	19,268	15	36,890
Investment securities	1,055	-	-	-	1,055
Loans and advances to customers	417,899	30,875	-	-	448,774
Other financial assets	5,419	-	-	-	5,419
Total financial assets	565,560	39,505	19,268	15	624,348
Financial liabilities:					
Loans and deposits from banks and financial institutions	81,088	-	-	-	81,088
Deposits from customers	374,576	2,322	1,055	197	378,150
Other financial liabilities	11,534	-	-	-	11,534
Total financial liabilities	467,198	2,322	1,055	197	470,772
Net geographical gap	98,362	37,183	18,213	(182)	153,576

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2025 (Continued) *(In thousands of AZN, unless otherwise indicated)*

29. EARNINGS PER SHARE

	December 31, 2025	December 31. 2024
Net profit for the year attributable to the owners of the Bank	12,869	10,035
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>1,090</u>	<u>1,004</u>
Earnings per share - basic and diluted	<u>11.81</u>	<u>10.00</u>

30. POST-REPORTING DATE EVENTS

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