

**PASHA Capital Investment Company CJSC**

**Financial statements**

*Year ended 31 December 2021  
together with independent auditor's report*

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## Independent auditor's report

To the Shareholder and Supervisory Board of  
PASHA Capital Investment Company CJSC

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of PASHA Capital Investment Company CJSC (the "Company"), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for opinion

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

#### Emphasis of matter

We draw attention to Note 24 to the financial statements, which describes a significant concentration of the Company's transactions with related parties. Our opinion is not modified in respect of this matter.

#### Responsibilities of Management and Supervisory Board for the financial statements

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

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



**Statement of financial position****As at 31 December 2021***(Amounts presented are in Azerbaijani manats, unless otherwise indicated)*

	Notes	31 December 2021	31 December 2020
<b>Assets</b>			
Cash and cash equivalents	5	61,735,164	18,099,905
Investment securities	6	23,156,454	13,946,721
Trade and other receivables	7	589,261	127,122
Property and equipment	8	228,326	149,055
Intangible assets	9	183,854	119,366
Right-of-use asset	10	256,929	16,260
Current income tax assets	11	220,902	-
Deferred income tax assets	11	46,753	-
Other assets		30,076	35,747
<b>Total assets</b>		<b>86,447,719</b>	<b>32,494,176</b>
<b>Liabilities</b>			
Advances received	12	58,495,296	15,646,869
Borrowings under repurchase agreements	13	19,481,770	10,280,428
Trade and other payables	14	540,857	324,808
Deferred revenue		-	17,157
Lease liability	10	159,518	17,509
Current income tax liabilities	11	-	550,391
Deferred income tax liabilities	11	-	66,734
Other liabilities		5,275	-
<b>Total liabilities</b>		<b>78,682,716</b>	<b>26,903,896</b>
<b>Equity</b>			
Share capital	15	300,000	300,000
Retained earnings		7,311,495	4,850,308
Net unrealized gains on investment securities	15	153,508	439,972
<b>Total equity</b>		<b>7,765,003</b>	<b>5,590,280</b>
<b>Total liabilities and equity</b>		<b>86,447,719</b>	<b>32,494,176</b>

**Signed and authorized for release on behalf of the Management of the Company:**

Director

Finance Director

13 May 2022



Mr. Jeyhun Hajiyev

Mrs. Elmira Nabiyeva

**Statement of profit or loss and other comprehensive income****For the year ended 31 December 2021***(Amounts presented are in Azerbaijani manats, unless otherwise indicated)*

	<b>Notes</b>	<b>2021</b>	<b>2020</b>
Interest revenue calculated using effective interest rate		1,727,096	793,547
Interest expense on borrowings under repurchase agreements	13	(761,356)	(318,672)
Interest expense on lease liability	10	(4,959)	(3,744)
<b>Net interest income</b>		<b>960,781</b>	<b>471,131</b>
Credit loss expense on financial assets		(35,134)	(17,067)
<b>Net interest income after credit loss expense</b>		<b>925,647</b>	<b>454,064</b>
Net fee and commission income	16	1,921,653	1,449,546
Net gain from dealing with debt securities	17	1,815,580	2,438,575
<b>Non-interest income</b>		<b>3,737,233</b>	<b>3,888,121</b>
Personnel expenses	18	(904,832)	(504,268)
Other operating and administrative expenses	19	(506,359)	(333,543)
Depreciation and amortisation	8, 9, 10	(151,106)	(59,426)
Net (loss)/gain from foreign currency translation differences		(6,613)	24,081
<b>Non-interest expense</b>		<b>(1,568,910)</b>	<b>(873,156)</b>
<b>Profit before income tax expense</b>		<b>3,093,970</b>	<b>3,469,029</b>
Income tax expense	11	(632,783)	(688,709)
<b>Profit for the year</b>		<b>2,461,187</b>	<b>2,780,320</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of debt instruments at fair value through other comprehensive income	6	(362,566)	364,734
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	6	4,486	12,075
Income tax relating to components of other comprehensive income	11	71,616	(75,362)
<b>Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods</b>		<b>(286,464)</b>	<b>301,447</b>
<b>Total comprehensive income for the year</b>		<b>2,174,723</b>	<b>3,081,767</b>

The accompanying notes on pages 5-34 are an integral part of these financial statements.

**Statement of changes in equity****For the year ended 31 December 2021***(Amounts presented are in Azerbaijani manats, unless otherwise indicated)*

	<b>Share capital (Note 15)</b>	<b>Retained earnings</b>	<b>Net unrealized gains/(losses) on investment securities (Note 15)</b>	<b>Total equity</b>
<b>As at 1 January 2020</b>	<b>300,000</b>	<b>2,069,988</b>	<b>138,525</b>	<b>2,508,513</b>
Profit for the year	-	2,780,320	-	2,780,320
Other comprehensive income for the year	-	-	301,447	301,447
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>2,780,320</b>	<b>301,447</b>	<b>3,081,767</b>
<b>As at 31 December 2020</b>	<b>300,000</b>	<b>4,850,308</b>	<b>439,972</b>	<b>5,590,280</b>
Profit for the year	-	2,461,187	-	2,461,187
Other comprehensive loss for the year	-	-	(286,464)	(286,464)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>2,461,187</b>	<b>(286,464)</b>	<b>2,174,723</b>
<b>As at 31 December 2021</b>	<b>300,000</b>	<b>7,311,495</b>	<b>153,508</b>	<b>7,765,003</b>

*The accompanying notes on pages 5-34 are an integral part of these financial statements.*



**Statement of cash flows****For the year ended 31 December 2021***(Amounts presented are in Azerbaijani manats, unless otherwise indicated)*

	<b>Notes</b>	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities</b>			
Interest received		1,169,997	365,796
Interest paid	25	(761,356)	(239,758)
Fees and commissions received		1,916,288	1,453,079
Personnel expenses paid		(600,663)	(205,781)
Other operating and administrative expenses paid		(460,346)	(404,023)
Net realized gains on sale of investment securities		1,815,611	2,438,575
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>3,079,531</b>	<b>3,407,888</b>
<i>Net change in operating assets and liabilities</i>			
Trade and other receivables		(492,256)	-
Advances received		42,841,812	12,432,255
Trade and other payables		(134,978)	(138,221)
<b>Net cash from operating activities before income tax</b>		<b>45,294,109</b>	<b>15,701,922</b>
Income tax paid		(1,445,947)	(280,743)
<b>Net cash from operating activities</b>		<b>43,848,162</b>	<b>15,421,179</b>
<b>Cash flows from investing activities</b>			
Purchase of investment securities		(101,081,771)	27,215,752
Proceeds from sale and redemption of investment securities		92,066,571	(32,294,216)
Purchase of property and equipment		(123,516)	(124,136)
Acquisition of intangible assets		(83,718)	(51,616)
<b>Net cash used in investing activities</b>		<b>(9,222,434)</b>	<b>(5,254,216)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings under repurchase agreements	25	2,951,317,302	328,390,067
Repayment of borrowings under repurchase agreements	25	(2,942,115,960)	(324,085,113)
Lease liability paid	10	(191,250)	(43,115)
<b>Net cash from financing activities</b>		<b>9,010,092</b>	<b>4,261,839</b>
Effect of ECL on cash and cash equivalents	5	(561)	(32)
<b>Net increase in cash and cash equivalents</b>		<b>43,635,259</b>	<b>14,428,770</b>
Cash and cash equivalents, beginning	5	18,099,905	3,671,135
<b>Cash and cash equivalents, ending</b>	5	<b>61,735,164</b>	<b>18,099,905</b>

*The accompanying notes on pages 5-34 are an integral part of these financial statements.*

(Amounts presented are in Azerbaijani manats, unless otherwise indicated)

## 1. Principal activities

Close Joint Stock Company PASHA Capital Investment Company CJSC (the "Company") was established under the laws of the Republic of Azerbaijan on 27 June 2012. The Company operates under an investment activity license No. 088806 granted by the Ministry of Economy of the Republic of Azerbaijan on 9 March 2016.

The principal activity of the Company is to render international, local and online brokerage, underwriting, market making, margin trading, advisory and research services to both corporate and individual clients.

The Company's registered legal address is 170 Tolstoy Street, Baku, AZ1000, the Republic of Azerbaijan. The Company's current address is Caspian Plaza, 44 Jafar Jabbarli street, Baku AZ1065, the Republic of Azerbaijan.

As at 31 December 2021 and 2020, the Company is wholly owned by PASHA Holding LLC. As at 31 December 2021 and 2020, the ultimate beneficial owners of the Company are Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva, Mr. Arif Pashayev and Mr. Mir Jamal Pashayev who exercise collective control over the Company.

## 2. Basis of preparation

### General

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Company maintains its accounting records in accordance with the accounting legislation and related instructions of the Republic of Azerbaijan. These financial statements are based on these records that have been adjusted and reclassified in order to comply with IFRS.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, investment securities have been at fair value through other comprehensive income.

These financial statements are presented in Azerbaijani manats (AZN), unless otherwise indicated. AZN is the Company's functional currency as the majority of the Company's transactions are denominated, measured, or founded in AZN. Transactions in other currencies are treated as transactions in foreign currencies.

### Effect of COVID-19 pandemic

Due to the rapid spread of COVID-19 pandemic in 2020, which continued in 2021, many governments, including the Azerbaijani Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself, as well as the related public health and social measures, may influence the business of the entities in a wide range of industries.

Support measures were introduced by the Government and the Central Bank of Azerbaijan to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

The Company continues to assess pandemic effect and changing micro- and macroeconomic conditions on its activities, financial position and financial results.

### Changes in accounting policies

The Company has early adopted Amendment to IFRS 16: *COVID-19-Related Rent Concessions*, which provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. No other standard, interpretation or amendment that has been issued but is not yet effective was early adopted by the Company.

Several other amendments effective since 1 January 2020 were applied but do not have an impact on the financial statements of the Company.



*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)*

### 3. Summary of significant accounting policies

#### Financial assets and liabilities

##### *Initial recognition*

##### *Date of recognition*

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

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

##### *Initial measurement*

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

##### *Measurement categories of financial assets and liabilities*

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

- ▶ Amortized cost;
- ▶ FVOCI;
- ▶ FVPL.

##### *Business model assessment*

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

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

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

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

##### *The SPPI test*

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

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

*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)*

### 3. Summary of significant accounting policies (continued)

#### Financial assets and liabilities (continued)

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

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

#### *Debt instruments at FVOCI*

The Company measures debt instruments at FVOCI when both of the following conditions are met:

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

#### *Amounts due from credit institutions, debt securities at amortized cost*

The Company only measures amounts due from credit institutions, debt securities at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

#### *Determination of fair value*

The Company measures financial instruments, such as investment securities at FVOCI at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 22.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.



(Amounts presented are in Azerbaijani manats, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Financial assets and liabilities (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

#### Reclassification of financial assets and liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company changes the business model for managing financial assets. The Company has not reclassified any financial assets as at 31 December 2021 and 2020. Financial liabilities are prohibited to be reclassified.

#### Derecognition of financial assets and financial liabilities

##### Financial assets

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

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

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

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

##### Write-off

Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.



(Amounts presented are in Azerbaijani manats, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Financial assets and liabilities (continued)

##### *Financial liabilities*

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

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

##### *Offsetting*

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

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

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

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and current accounts in banks.

#### Trade and other receivables

Trade and other receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, trade and other receivables are measured at amortized cost, using the effective interest rate method. The carrying value of trade and other receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss and other comprehensive income. Trade and other receivables are derecognized in a manner as financial assets.

#### Advances received

Advances received are recognised for asset management contracts and arise at the moment when the customer transfers cash to the Company for asset management services. Advances received are recognised initially at fair value and are remeasured at the end of reporting date.

#### Trade and other payables

Trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether billed to the Company or not.

#### Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the statement of financial position as the Company retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as borrowings under repurchase agreements, reflecting the transaction's economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

When the counterparty has the right to sell or re-pledge the securities, the Company reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments held for collect or sell pledged as collateral, as appropriate. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within receivables from reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Company. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR.



*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)*

### 3. Summary of significant accounting policies (continued)

#### Repurchase and reverse repurchase agreements (continued)

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

#### Leases

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

##### *Right-of-use assets*

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, if any, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received, if any. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

##### *Lease liabilities*

At the commencement date of the lease, the Company recognises 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, if 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, if any, the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments, if any, that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

##### *Short-term leases and leases of low-value assets*

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

#### Property and equipment

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



(Amounts presented are in Azerbaijani manats, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Property and equipment (continued)

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

	<u>Years</u>
Furniture and fixtures	5
Computers, communication and other equipment	5
Leasehold improvements	10

The asset's residual values, useful lives and method of depreciation are reviewed and adjusted, if appropriate, at each financial year-end and adjusted prospectively, if appropriate. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognized in the statement of profit or loss and other comprehensive income.

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

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income in the year the asset is derecognized.

#### Intangible assets

Intangible assets consist of licenses, website, and computer software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives up to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss and other comprehensive income.

Intangible assets with indefinite useful lives are not amortized, and such assets are tested for impairment annually at 31 December, either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

#### Taxation

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the Republic of Azerbaijan.

Deferred income tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.



*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)*

### 3. Summary of significant accounting policies (continued)

#### Taxation (continued)

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

The Company also has various operating taxes that are assessed on the Company's activities. These taxes are included as a component of other operating and administrative expenses.

#### Equity

##### *Share capital*

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

#### Fiduciary activities

The Company provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its customers. Assets held in the fiduciary capacity, unless recognition criteria are met, are not reported in the Company's financial statements, as they are not assets of the Company. Revenue for provision of trust and other fiduciary services is recognized as services are provided.

#### Contingencies

Provisions are recognised when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### Revenue and expense recognition

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

##### *Interest and similar revenue and expense*

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

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

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

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



(Amounts presented are in Azerbaijani manats, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Revenue and expense recognition (continued)

##### *Fee and commission income*

The Company earns fee and commission income from a diverse range of services it provides to its customers. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. Fee income can be divided into the following two categories:

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

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees.

##### *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Company's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

##### *Fee and commission expenses*

The Company's commission fees incurred include bank commission fees charged that to the Company for safekeeping services and paid on behalf of the customers. Fees charged for the provision of safekeeping services over a period of time are accrued over that period.

#### Foreign currency translation

The financial statements are presented in AZN, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss and other comprehensive income as net foreign exchange gains or losses.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and exchange rate announced by the Central Bank of the Republic of Azerbaijan (CBAR) on the date of the transaction are included in gains less losses from dealing in foreign currencies.

The Company used the following official exchange rates in the preparation of these financial statements:

	<i>31 December 2021</i>	<i>31 December 2020</i>
1 US dollar	AZN 1.7000	AZN 1.7000
1 euro	AZN 1.9265	AZN 2.0890

#### Standards and interpretations issued, but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.



(Amounts presented are in Azerbaijani manats, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Standards and interpretations issued, but not yet effective (continued)

##### *IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- ▶ Separate the insurance coverage component and apply IFRS 17 to it;
- ▶ Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Company is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.

##### *Reference to the Conceptual Framework – Amendments to IFRS 3*

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations – Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have a material impact on the Company.

##### *Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16*

In May 2020, the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.



(Amounts presented are in Azerbaijani manats, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Standards and interpretations issued, but not yet effective (continued)

##### *Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37*

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

##### *IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities*

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its financial statements.

##### *Definition of Accounting Estimates – Amendments to IAS 8*

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Company.

##### *Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2*

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

##### *Amendments to IAS 1 Classification of Liabilities as Current or Non-current*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.



(Amounts presented are in Azerbaijani manats, unless otherwise indicated)

#### 4. Significant accounting judgments and estimates

##### Judgements

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

###### *Determining the lease term of contracts with renewal options*

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company has the option, under some of its leases to lease the assets for additional terms of three to five years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

##### Estimation uncertainty

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

###### *Fair value of financial instruments*

When the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. These techniques are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity risk, credit risk and volatility for longer-dated financial assets and liabilities. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 22).

###### *Impairment losses on financial assets*

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

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

###### *Leases – estimating the incremental borrowing rate*

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

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



*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***4. Significant accounting judgments and estimates (continued)****Estimation uncertainty (continued)***Taxation*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. Tax legislation in the Republic of Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management believes that as at 31 December 2021 and 2020 its interpretation of the relevant legislation is appropriate and that the Company's tax position will be sustained.

**5. Cash and cash equivalents**

Cash and cash equivalents comprise:

	<b>31 December 2021</b>	<b>31 December 2020</b>
Current accounts with credit institutions	61,735,725	18,099,937
Less: allowance for impairment	(561)	(32)
<b>Cash and cash equivalents</b>	<b>61,735,164</b>	<b>18,099,905</b>

Current accounts with credit institutions consist of account balances with resident and non-resident banks. All balances of cash and cash equivalents are allocated to Stage 1. The ECL relating to cash and cash equivalents of the Company is AZN 561 (31 December 2020: AZN 32).

**6. Investment securities**

Investment securities including those pledged under repurchase agreements comprise:

	<b>31 December 2021</b>	<b>31 December 2020</b>
<b>Debt securities at FVOCI</b>		
Treasury bills of the Ministry of Finance	23,156,454	13,946,721
<b>Debt securities at FVOCI</b>	<b>23,156,454</b>	<b>13,946,721</b>
<b>Investment securities</b>	<b>23,156,454</b>	<b>13,946,721</b>

As at 31 December 2021, balances included accrued interest receivable of AZN 459,179 (31 December 2020: AZN 319,124). Investment securities are placed with effective interest rates in the range of 4.2%-10% p.a. (2020: 5.2%-11.9% p.a.) and maturing up to 23 July 2024 (31 December 2020: 5 September 2023).

As at 31 December 2021, debt securities at FVOCI in total amount of AZN 20,140,659 (31 December 2020: AZN 10,711,177) are pledged as collateral under repurchase agreements (Note 13). The counterparties have no right to resell or repledge the pledged debt securities.

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI is as follows:

	<b>2021 Stage 1</b>	<b>2020 Stage 1</b>
<b>Debt securities at FVOCI</b>		
<b>Gross carrying value as at 1 January</b>	<b>13,946,721</b>	<b>8,103,876</b>
New assets originated or purchased	101,125,969	32,733,687
Assets repaid	(3,735,514)	(1,683,532)
Assets sold	(87,818,156)	(25,572,044)
Fair value (decrease)/increase	(362,566)	364,734
<b>At 31 December</b>	<b>23,156,454</b>	<b>13,946,721</b>

*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***6. Investment securities (continued)**

<i>Debt securities at FVOCI</i>	<b>2021</b> <b>Stage 1</b>	<b>2020</b> <b>Stage 1</b>
ECLs as at 1 January	(32,337)	(20,262)
New assets originated or purchased	(22,690)	(24,436)
Assets repaid	7,443	725
Assets sold	10,761	10,881
Changes to models and inputs used for ECL calculation	-	755
<b>At 31 December</b>	<b>(36,823)</b>	<b>(32,337)</b>

**7. Trade and other receivables**

Trade and other receivables comprise the following:

	<b>31 December</b> <b>2021</b>	<b>31 December</b> <b>2020</b>
Corporate customers	456,564	95,903
Individual customers	168,688	37,093
<b>Trade and other receivable, gross</b>	<b>625,252</b>	<b>132,996</b>
Less allowance	(35,991)	(5,874)
<b>Trade and other receivable, net</b>	<b>589,261</b>	<b>127,122</b>

Trade receivables balance comprises of the commission charges incurred on customers' brokerage activities and paid by the Company to the third parties as National Deposit Center (NDC), Baku Stock Exchange (BSE) and Raiffaisen on the behalf of customers (incurred cost is billed to customers), which assist the Company in the process of underwriting, registering and exercising deals.

The lifetime ECL relating to trade and other receivables of the Company is AZN 35,991 as at 31 December 2021 (2020: AZN 5,874). All balances of trade receivables are allocated to Stage 1.

**8. Property and equipment**

The movement in property and equipment were as follows:

	<i>Leasehold</i>	<i>Computers and office equipment</i>	<i>Furniture and fixtures</i>	<i>Other fixed assets</i>	<i>Total</i>
<b>Cost</b>					
1 January 2020	-	35,708	15,824	-	51,532
Additions	5,900	109,893	178	-	115,971
Disposals	-	-	-	-	-
<b>31 December 2020</b>	<b>5,900</b>	<b>145,601</b>	<b>16,002</b>	<b>-</b>	<b>167,503</b>
Additions	-	77,448	49,902	1,093	128,443
Disposals	(5,900)	-	-	-	(5,900)
<b>31 December 2021</b>	<b>-</b>	<b>223,049</b>	<b>65,904</b>	<b>1,093</b>	<b>290,046</b>
<b>Accumulated depreciation</b>					
1 January 2020	-	(2,393)	(1,680)	-	(4,073)
Depreciation charge	(665)	(11,226)	(2,484)	-	(14,375)
Disposals	-	-	-	-	-
<b>31 December 2020</b>	<b>(665)</b>	<b>(13,619)</b>	<b>(4,164)</b>	<b>-</b>	<b>(18,448)</b>
Depreciation charge	(308)	(37,751)	(5,889)	(297)	(44,245)
Disposals	973	-	-	-	973
<b>31 December 2021</b>	<b>-</b>	<b>(51,370)</b>	<b>(10,053)</b>	<b>(297)</b>	<b>(61,720)</b>
<b>Net book value</b>					
<b>31 December 2020</b>	<b>5,235</b>	<b>131,982</b>	<b>11,838</b>	<b>-</b>	<b>149,055</b>
<b>31 December 2021</b>	<b>-</b>	<b>171,679</b>	<b>55,851</b>	<b>796</b>	<b>228,326</b>

As at 31 December 2021, property and equipment amounting to AZN 7,360 (2020: nil) were fully depreciated.



*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***9. Intangible assets**

The movement in intangible assets were as follows:

	<i>Softwares</i>	<i>Licences</i>	<i>Total</i>
<b>Cost</b>			
<b>1 January 2020</b>	5,000	62,750	67,750
Additions	49,142	8,500	57,642
Disposals	-	-	-
<b>31 December 2020</b>	<b>54,142</b>	<b>71,250</b>	<b>125,392</b>
Additions	40,912	42,806	83,718
Disposals	-	-	-
<b>31 December 2021</b>	<b>95,054</b>	<b>114,056</b>	<b>209,110</b>
<b>Accumulated depreciation</b>			
<b>1 January 2020</b>	-	-	-
Amortization charge	(5,418)	(608)	(6,026)
Disposals	-	-	-
<b>31 December 2020</b>	<b>(5,418)</b>	<b>(608)</b>	<b>(6,026)</b>
Amortization charge	(5,463)	(13,767)	(19,230)
Disposals	-	-	-
<b>31 December 2021</b>	<b>(10,881)</b>	<b>(14,375)</b>	<b>(25,256)</b>
<b>Net book value</b>			
<b>31 December 2020</b>	<b>48,724</b>	<b>70,642</b>	<b>119,366</b>
<b>31 December 2021</b>	<b>84,173</b>	<b>99,681</b>	<b>183,854</b>

As at 31 December 2021, Intangible assets amounting to AZN 11,248 (2020: nil) were fully amortized.

**10. Right of use assets and lease liability**

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

<i>Right-of-use assets</i>	<i>2021</i>	<i>2020</i>
<b>As at 1 January</b>	<b>16,260</b>	<b>55,285</b>
Additions	328,300	-
Disposals	-	-
Amortization charge	(87,631)	(39,025)
<b>As at 31 December 2021</b>	<b>256,929</b>	<b>16,260</b>

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

<i>Lease liability</i>	<i>2021</i>	<i>2020</i>
<b>As at 1 January</b>	<b>17,509</b>	<b>56,801</b>
Additions	328,300	-
Interest expense	4,959	3,744
Payments	(191,250)	(43,115)
Other	-	79
<b>As at 31 December 2021</b>	<b>159,518</b>	<b>17,509</b>

*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***11. Taxation**

The corporate income tax expense comprises:

	<b>31 December 2021</b>	<b>31 December 2020</b>
Current income tax charge	(674,654)	(730,990)
Deferred income tax credit/(charge)	113,487	(33,081)
Deferred income tax (credit)/charge recognized in other comprehensive income	(71,616)	75,362
<b>Income tax expense</b>	<b>(632,783)</b>	<b>(688,709)</b>

Deferred income tax related to items charged to other comprehensive income during the year is as follows:

	<b>31 December 2021</b>	<b>31 December 2020</b>
Net loss/(gain) on investment securities at fair value through OCI	71,616	(75,362)
<b>Income tax relating to components of other comprehensive income</b>	<b>71,616</b>	<b>(75,362)</b>

Standard profit tax rate comprises 20% for 2021 and 2020, and payers have to file profit tax returns. According to the Tax Code of the Republic of Azerbaijan companies are eligible to reduce profit tax amount for the amount of withholding taxes paid on interest income in order to avoid double taxation. Rate of withholding tax applicable to interest income in 2021 and 2020 was 10%.

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

	<b>For the year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
<b>Profit before income tax expense</b>	<b>3,093,970</b>	<b>3,469,029</b>
Statutory income tax rate	20%	20%
<b>Theoretical income tax expense at the statutory rate</b>	<b>(618,794)</b>	<b>(693,806)</b>
Non-deductible expenses	(12,083)	(2,750)
Other	(1,906)	7,847
<b>Income tax expense</b>	<b>(632,783)</b>	<b>(688,709)</b>



*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***11. Taxation (continued)**

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

	<i>Origination and reversal of temporary differences</i>						
	<i>2019</i>	<i>In the statement of profit or loss</i>	<i>In other comprehensive income</i>	<i>2020</i>	<i>In the statement of profit or loss</i>	<i>In other comprehensive income</i>	<i>2021</i>
<b>Tax effect of deductible temporary differences</b>							
Cash and cash equivalents	12	(6)	-	6	106	-	112
Trade and other receivables	19,561	(18,386)	-	1,175	6,023	-	7,198
Trade and other payables	-	54,627	-	54,627	35,330	-	89,957
Lease liability	11,360	(7,858)	-	3,502	28,402	-	31,904
Other assets	-	-	-	-	3,823	-	3,823
<b>Deferred income tax asset</b>	<b>30,933</b>	<b>28,377</b>	<b>-</b>	<b>59,310</b>	<b>73,684</b>	<b>-</b>	<b>132,994</b>
<b>Tax effect of taxable temporary differences</b>							
Investment securities	(40,384)	12,219	(75,362)	(103,527)	899	71,616	(31,012)
Property and equipment	(4,553)	(2,571)	-	(7,124)	(5,415)	-	(12,539)
Intangible assets	(8,239)	(2,060)	-	(10,299)	677	-	(9,622)
Right-of-use asset	(11,057)	7,805	-	(3,252)	(27,913)	-	(31,165)
Trade and other payables	(353)	353	-	-	-	-	-
Borrowings under repurchase agreements	-	(1,842)	-	(1,842)	(61)	-	(1,903)
<b>Deferred income tax liability</b>	<b>(64,586)</b>	<b>13,904</b>	<b>(75,362)</b>	<b>(126,044)</b>	<b>(31,813)</b>	<b>71,616</b>	<b>(86,241)</b>
<b>Deferred income tax assets/(liabilities)</b>	<b>(33,653)</b>	<b>42,281</b>	<b>(75,362)</b>	<b>(66,734)</b>	<b>41,871</b>	<b>71,616</b>	<b>46,753</b>

Current income tax assets of AZN 220,902 as at 31 December 2021 represents cumulative amount of income tax prepaid by the Company.

Current income tax liabilities of AZN 550,391 as at 31 December 2020 represents cumulative amount of income tax payable of the Company.

**12. Advances received**

Advances received represent an obligation of the Company in front of the customers under the investment services agreements. The advances received comprise:

	<i>31 December 2021</i>	<i>31 December 2020</i>
Corporate customers	15,740,825	16,394
Individual customers	42,754,471	15,630,475
<b>Advances received</b>	<b>58,495,296</b>	<b>15,646,869</b>

*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***13. Borrowings under repurchase agreements**

Borrowings under repurchase agreements comprise:

	<b>31 December 2021</b>	<b>31 December 2020</b>
Non-related parties	8,375,561	-
Related parties	11,106,209	10,280,428
<b>Borrowings under repurchase agreements</b>	<b>19,481,770</b>	<b>10,280,428</b>

The Company's investment securities of AZN 20,140,659 (31 December 2020: AZN 10,711,177) are pledged as collateral under these repurchase agreements (Note 6).

As at 31 December 2021, the Company's liabilities under these agreements were borrowed at interest rate ranging between 3%-6% p.a. (2020: 3%-7% p.a.) which amounted to interest expense of AZN 761,356 (2020: AZN 318,672).

**14. Trade and other payables**

Trade and other payables comprise the following:

	<b>31 December 2021</b>	<b>31 December 2020</b>
<b>Financial liabilities</b>		
Commission payables	70,718	50,450
	<b>70,718</b>	<b>50,450</b>
<b>Non-financial liabilities</b>		
Salaries, bonuses and other employee related payables	409,317	232,034
Accrued expenses	60,822	42,324
	<b>470,139</b>	<b>274,358</b>
<b>Trade and other payables</b>	<b>540,857</b>	<b>324,808</b>

**15. Equity**

As at 31 December 2021 and 2020, the number of authorized ordinary shares of the Company was 3,000 with a nominal value per share of AZN 100. All authorized shares have been issued and fully paid.

The share capital of the Company was contributed by the shareholder in AZN and it is entitled to dividends and any capital distribution in AZN.

**Net unrealized gains on investment securities**

This reserve records fair value changes on investment securities at FVOCI which amounted to AZN 153,508 (2020: AZN 439,972).

**16. Net fee and commission income**

Fee and commission income and expenses comprise:

	<b>For the year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
Brokerage services	1,105,902	1,363,001
Underwriting services	897,378	153,047
Safekeeping services	139,670	278,311
Income from advisory services	32,870	-
Other income	21,355	-
<b>Fee and commission income</b>	<b>2,197,175</b>	<b>1,794,359</b>
Custodian and bank services	(275,522)	(344,813)
<b>Fee and commission expenses</b>	<b>(275,522)</b>	<b>(344,813)</b>
<b>Net fee and commission income</b>	<b>1,921,653</b>	<b>1,449,546</b>



*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***17. Net gain from dealing with debt securities**

Net gain from dealing with debt securities comprises:

	<i>For the year ended 31 December</i>	
	<b>2021</b>	<b>2020</b>
Operations with own debt securities	610,219	107,330
Operations with customers' debt securities	1,205,361	2,331,245
<b>Net gain from dealing with debt securities</b>	<b>1,815,580</b>	<b>2,438,575</b>

**18. Personnel expenses**

Personnel expenses comprise:

	<i>For the year ended 31 December</i>	
	<b>2021</b>	<b>2020</b>
Salaries and bonuses	(701,635)	(422,113)
Social security costs	(138,652)	(67,457)
Other	(64,545)	(14,698)
<b>Personnel expenses</b>	<b>(904,832)</b>	<b>(504,268)</b>

**19. Other operating and administrative expenses**

Other operating and administrative expenses comprise:

	<i>For the year ended 31 December</i>	
	<b>2021</b>	<b>2020</b>
Membership fees	(152,493)	(87,286)
Professional services	(124,483)	(113,493)
Advertisement expenses	(106,198)	(17,854)
Office supplies	(26,187)	-
Communication expenses	(16,140)	(12,871)
Bank charges	(2,925)	(14,909)
Commission expenses	(1,248)	(14,574)
Other	(76,685)	(72,556)
<b>Other operating and administrative expenses</b>	<b>(506,359)</b>	<b>(333,543)</b>

**20. Commitments and contingencies****Operating environment**

During 2020, the global economy was negatively impacted by the spread of the coronavirus pandemic (COVID-19).

During March-August 2020, the increasingly restrictive lockdown measures to combat COVID-19 in many countries significantly reduced economic activity and aggregate spending levels. Social distancing and quarantine measures resulted in the closure of retail, transport, travel, catering, hotel, entertainment and many other businesses. International trade was also significantly reduced. Finally, oil prices tumbled to historic lows but fully recovered by the end of the period.

However, during 2021, increased worldwide vaccination resulted in softened quarantine restrictions, which in turn positively affected the global economy.

The Company conducts all of its operations in the Republic of Azerbaijan. The economy of Azerbaijan is particularly sensitive to oil and gas prices. During recent years, the Azerbaijani Government has initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce dependence on the oil and gas sector.

During 2021 the oil prices have been increasing and had reached its 7 year maximum as at 31 December 2021. This resulted in considerable increase of USD inflow into the economy, which added stability to the local currency.

*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)*

## 20. Commitments and contingencies (continued)

### Operating environment (continued)

During 2020 and 2021, the CBAR continued to ease monetary conditions while maintaining the stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period. As a result, the CBAR refinancing rate was reduced from 7.25% to 6.25% during 2020 and remained flat since then. During the second half of 2021, the CBAR increased refinancing rate due to the increased inflation rates worldwide, and as a result, refinancing rate became 7.25% as at 31 December 2021.

A support package was introduced by the Government and CBAR to counter the economic downturn caused by the pandemic. These measures include, but are not limited to, subsidized lending to affected industries, payments to unemployed individuals and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and help customers avoid liquidity shortages as a result of the COVID-19 containment measures. On 23 April 2020, the CBAR decided to temporarily reduce the minimum required capital adequacy ratio from 12% to 11% for banks of system importance, which include the Bank, and from 10% to 9% for all other banks and keep it at these levels until July 2021. Since July 2021, the required minimum ratios were set back at pre-pandemic levels (12% and 10%, respectively).

### Taxation

Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged.

As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review.

As at 31 December 2021, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax position will be sustained.

### Legal

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

### Fiduciary activities

As at 31 December 2021, debt securities held on behalf of customers amounted to AZN 528,988,030 (31 December 2020: AZN 322,953,042).

## 21. Risk management

### Introduction

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

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process. The activities of the Company are exposed to various risks. Risk management therefore is a critical component of its investment activities. Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and daily monitoring, subject to controls. Each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The main financial risks inherent to the Company's operations are those related to credit, market and liquidity.



(Amounts presented are in Azerbaijani manats, unless otherwise indicated)

## 21. Risk management (continued)

### Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position.

The capital management objectives are:

- ▶ To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholder;
- ▶ To retain financial flexibility by maintaining strong liquidity;
- ▶ To maintain financial strength to support business growth and to satisfy the requirements of the policyholders and stakeholders.

The Company does not have any specific regulatory ratio with respect to capital under management.

### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty or Company of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors.

The carrying amount of financial assets included on the statement of financial position represents the maximum credit risk exposure on these assets. With respect to credit risk arising from other financial assets of the Company, which generally comprises cash and cash equivalents and investment securities the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these assets.

	<u>31 December 2021</u>	<u>31 December 2020</u>
Cash and cash equivalents	61,735,725	18,099,937
Investment securities	23,156,454	13,946,721
Trade and other receivables	625,252	132,996
<b>Maximum exposure to credit risk</b>	<b><u>85,517,431</u></b>	<b><u>32,179,654</u></b>

### Impairment assessment

The Company calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The <i>Probability of Default</i> is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The <i>Exposure at Default</i> is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The <i>Loss Given Default</i> is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.



*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)*

## 21. Risk management (continued)

### Credit risk (continued)

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Company groups its financial assets into Stage 1, Stage 2, Stage 3 and POCI, as described below:

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

#### *Definition of default and cure*

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

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

Such events include:

- ▶ Default and Credit-impaired assets – Financial asset with principal amount and/or accrued interest and/or any of other payment overdue by more than 90 days from the date specified in the contract;
- ▶ Existing of information that borrower will/has enter bankruptcy, insolvency or a similar condition;
- ▶ Default (according to IRB and External Rating);
- ▶ Default on other financial instruments of the same borrower.

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

#### *Credit quality per class of financial assets*

The Company determines credit risk exposure of its financial and assets by classifying them according to the Company's credit ratings of counterparties and where available international rating agencies. The Company classifies its financial assets as follows:

- ▶ High grade – counterparties with excellent financial performance and characterized by remote possibility of credit loss;
- ▶ Standard grade – counterparties with stable financial performance and characterized by normal creditworthiness;
- ▶ Sub-standard grade – counterparties with satisfactory financial performance and characterized by lower credit quality than standard and by possibility of credit loss.



(Amounts presented are in Azerbaijani manats, unless otherwise indicated)

## 21. Risk management (continued)

### Credit risk (continued)

Assets classified past due or impaired have all the weaknesses inherent in one classified sub-standard with the added characteristic the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

#### Internal rating and PD estimation process

The Company's management operates its internal rating models. The Company runs separate models for its key portfolios in which its customers are rated using international ratings.

The models incorporate both qualitative and quantitative information and, in addition to information specific to the customer, utilise supplemental external information that could affect the borrower's behaviour. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate. The company's internal credit rating grades are as follows:

<i>Moody's based internal/external ratings for Corporate and Financial institutions</i>	<i>Internal rating description</i>
Aaa	
Aa1 to Aa3	High grade
A1 to A3	
Baa1 to Baa3	
Ba1 to Ba3	Standard grade
B1 to B3	
Caa1 to Caa3	Sub-standard grade
Ca	
C	Impaired

Unrated financial assets are allocated to credit quality categories on an individual basis, taking into account the Sovereign rating of a country, where these assets are located, and other information which management of the Company possesses. High grade rating is used for Central Bank, Ministry of Finance of the Republic of Azerbaijan and other cash covered financial assets.

#### Exposure at default

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

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

#### Forward-looking information and multiple economic scenarios

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

- ▶ GDP growth rates;
- ▶ Inflation;
- ▶ Monetary policy rate;
- ▶ Dynamics of real and nominal effective exchange rates;
- ▶ Real estate price.

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

The Company obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central groups, and international financial institutions). Company's experts determine the weights attributable to the multiple scenarios with the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***21. Risk management (continued)****Credit risk (continued)***Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Company credit ratings. The table below shows the credit quality by class of asset in the statement of financial position, based on the Company's credit rating system for the year ended 31 December 2021.

<b>31 December 2021</b>		<b>High grade</b>	<b>Standard grade</b>	<b>Sub-standard grade</b>	<b>Impaired</b>	<b>Total</b>
Cash and cash equivalents	Stage 1	7,768,809	53,966,916	-	-	<b>61,735,725</b>
Investment securities	Stage 1	23,156,454	-	-	-	<b>23,156,454</b>
Trade and other receivables	Stage 1	-	625,252	-	-	<b>625,252</b>
<b>Total</b>		<b>30,925,263</b>	<b>54,592,168</b>	<b>-</b>	<b>-</b>	<b>85,517,431</b>

  

<b>31 December 2020</b>		<b>High grade</b>	<b>Standard grade</b>	<b>Sub-standard grade</b>	<b>Impaired</b>	<b>Total</b>
Cash and cash equivalents	Stage 1	17,411,732	688,205	-	-	<b>18,099,937</b>
Investment securities	Stage 1	13,946,721	-	-	-	<b>13,946,721</b>
Trade and other receivables	Stage 1	-	90,016	42,980	-	<b>132,996</b>
<b>Total</b>		<b>31,358,453</b>	<b>778,221</b>	<b>42,980</b>	<b>-</b>	<b>32,179,654</b>

**Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or financial liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. In managing liquidity risk, the Company maintains adequate cash reserves, continuously monitors forecast and actual cash flows.

The tables below summarize the maturity profile of the Company's financial liabilities as at 31 December 2021 and 2020 based on contractual undiscounted repayment obligations.

<b>As at 31 December 2021</b>	<b>Less than 3 months</b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
Advances received	58,495,296	-	-	-	<b>58,495,296</b>
Borrowings under repurchase agreements	19,491,295	-	-	-	<b>19,491,295</b>
Trade and other payables	70,718	-	-	-	<b>70,718</b>
Lease liability	1,852	2,819	104,019	99,313	<b>208,003</b>
<b>Total undiscounted financial liabilities</b>	<b>78,059,161</b>	<b>2,819</b>	<b>104,019</b>	<b>99,313</b>	<b>78,265,312</b>

  

<b>As at 31 December 2020</b>	<b>Less than 3 months</b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
Advances received	15,646,869	-	-	-	<b>15,646,869</b>
Borrowings under repurchase agreements	10,289,640	-	-	-	<b>10,289,640</b>
Lease liability	17,932	-	-	-	<b>17,932</b>
Trade and other payables	50,450	-	-	-	<b>50,450</b>
<b>Total undiscounted financial liabilities</b>	<b>26,004,891</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,004,891</b>

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flows.



*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***21. Risk management (continued)****Geographical concentration**

The geographical concentration of the Company's financial assets and liabilities as at 31 December 2021 and 2020 was as follows. The disclosure is based on in which countries the counterparties are situated.

	2021			2020		
	Azerbaijan	CIS and non-OECD countries	Total	Azerbaijan	CIS and non-OECD countries	Total
<b>Assets</b>						
Cash and cash equivalents	53,966,324	7,768,840	61,735,163	688,183	17,411,722	18,099,905
Investment securities	23,156,454	-	23,156,454	13,946,721	-	13,946,721
Trade and other receivables	589,261	-	589,261	114,136	12,986	127,122
<b>Total financial assets</b>	<b>77,712,039</b>	<b>7,768,840</b>	<b>85,480,879</b>	<b>14,749,040</b>	<b>17,424,708</b>	<b>32,173,748</b>
<b>Liabilities</b>						
Advances received	58,495,296	-	58,495,296	15,646,869	-	15,646,869
Borrowings under repurchase agreements	19,481,770	-	19,481,770	10,280,428	-	10,280,428
Lease liability	159,518	-	159,518	17,509	-	17,509
Trade and other payables	70,718	-	70,718	50,450	-	50,450
<b>Total financial liabilities</b>	<b>78,207,302</b>	<b>-</b>	<b>78,207,302</b>	<b>25,995,256</b>	<b>-</b>	<b>25,995,256</b>
<b>Net financial position</b>	<b>(495,263)</b>	<b>7,768,840</b>	<b>7,273,577</b>	<b>(11,246,216)</b>	<b>17,424,708</b>	<b>6,178,492</b>

**Operational risk**

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

**Market risk**

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. Management of the Company sets limits on the value of risk that may be accepted, which is monitored on a regular basis.

However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Company does not have floating interest rate instruments thus is not exposed to cash flow interest risk, interest rate fluctuations also does not affect the Company's equity.

*Price risk*

The Company's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices. Management believes that under the current economic conditions, the Company is not exposed to significant price risk.

*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***21. Risk management (continued)****Market risk (continued)***Currency risk*

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its statement of financial position and statement of cash flows. The Company does not have any formal procedures on managing currency risk, however, management is quite well informed on the tendencies in the economy and has undertaken steps to minimize its currency risks. Management does not hedge the Company's foreign exchange risk.

The table below indicates the currencies to which the Company had significant exposure at 31 December 2021 and 2020 on its non-trading financial assets and liabilities and its forecast cash flows.

The analysis calculates the effect of a reasonably possible movement of the currency rate against the Azerbaijani manats, with all other variables held constant on the income statement. A positive amount in the table reflects a potential net increase in profit or loss, while a negative amount reflects a net potential reduction.

	<b>AZN</b>	<b>USD</b>	<b>EUR</b>	<b>XAU</b>	<b>Other</b>	<b>Total 2021</b>
<b>Assets</b>						
Cash and cash equivalent	33,228,204	25,579,352	2,754,644	172,936	28	61,735,164
Investment securities	23,156,454	-	-	-	-	23,156,454
Trade and other receivables	589,261	-	-	-	-	589,261
<b>Total financial assets</b>	<b>56,973,919</b>	<b>25,579,352</b>	<b>2,754,644</b>	<b>172,936</b>	<b>28</b>	<b>85,480,879</b>
Advances received	32,483,439	23,155,435	101,810	2,754,612	-	58,495,296
Borrowings under repurchase agreements	19,481,770	-	-	-	-	19,481,770
Trade and other payables	70,718	-	-	-	-	70,718
Lease liability	159,518	-	-	-	-	159,518
<b>Total financial liabilities</b>	<b>52,195,445</b>	<b>23,155,435</b>	<b>101,810</b>	<b>2,754,612</b>	<b>-</b>	<b>78,207,302</b>
<b>Net financial position</b>	<b>4,778,474</b>	<b>2,423,917</b>	<b>2,652,834</b>	<b>(2,581,676)</b>	<b>28</b>	<b>7,273,577</b>

As at 31 December 2020, the Company had the following exposure to foreign currency exchange rate risk:

	<b>AZN</b>	<b>USD</b>	<b>XAU</b>	<b>Other</b>	<b>Total 2020</b>
<b>Assets</b>					
Cash and cash equivalents	310,001	13,827,333	3,749,991	212,580	18,099,905
Investment securities	13,946,721	-	-	-	13,946,721
Trade and other receivables	127,122	-	-	-	127,122
<b>Total financial assets</b>	<b>14,383,844</b>	<b>13,827,333</b>	<b>3,749,991</b>	<b>212,580</b>	<b>32,173,748</b>
Advances received	1,959	11,777,314	3,749,991	117,605	15,646,869
Borrowings under repurchase agreements	10,280,428	-	-	-	10,280,428
Lease liability	17,509	-	-	-	17,509
Trade and other payables	50,450	-	-	-	50,450
<b>Total financial liabilities</b>	<b>10,350,346</b>	<b>11,777,314</b>	<b>3,749,991</b>	<b>117,605</b>	<b>25,995,256</b>
<b>Net financial position</b>	<b>4,033,498</b>	<b>2,050,019</b>	<b>-</b>	<b>94,975</b>	<b>6,178,492</b>

Impact on profit before income tax expense based on assets value as at 31 December:

	<b>2021</b>					
	<b>USD/AZN (+20%)</b>	<b>USD/AZN (-3%)</b>	<b>EUR/AZN (+21%)</b>	<b>EUR/AZN (-9%)</b>	<b>XAU/AZN (+21%)</b>	<b>XAU/AZN (-14%)</b>
Effect on profit before income tax expense	484,783	(72,718)	557,095	(238,755)	(542,152)	361,435
	<b>2020</b>					
	<b>USD/AZN (+20%)</b>	<b>USD/AZN (-3%)</b>	<b>XAU/AZN (+22%)</b>	<b>XAU (-15%)</b>		
Effect on profit before income tax expense			410,004	(61,501)	763,186	520,354

The Company's exposure to foreign currency changes for all other currencies is not material.



*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***22. Fair value measurements****Fair value hierarchy**

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

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

For the purpose of fair value disclosures, the Company's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

The following tables show analysis of financial assets and liabilities by level of the fair value hierarchy:

<b>31 December 2021</b>	<b>Date of valuation</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets measured at fair value</b>					
Investment securities – at FVOCI	31 December 2021	–	23,156,454	–	<b>23,156,454</b>
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2021	61,735,164	–	–	<b>61,735,164</b>
Trade and other receivables	31 December 2021	–	–	589,261	<b>589,261</b>
<b>Liabilities for which fair values are disclosed</b>					
Advances received	31 December 2021	–	58,495,296	–	<b>58,495,296</b>
Borrowings under repurchase agreements	31 December 2021	–	19,481,770	–	<b>19,481,770</b>
Trade and other payables	31 December 2021	–	–	70,718	<b>70,718</b>
<b>31 December 2020</b>	<b>Date of valuation</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets measured at fair value</b>					
Investment securities – at FVOCI	31 December 2020	–	13,946,721	–	<b>13,946,721</b>
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2020	18,099,905	–	–	<b>18,099,905</b>
Trade and other receivables	31 December 2020	–	–	127,122	<b>127,122</b>
<b>Liabilities for which fair values are disclosed</b>					
Advances received	31 December 2020	–	15,646,869	–	<b>15,646,869</b>
Borrowings under repurchase agreements	31 December 2020	–	10,280,428	–	<b>10,280,428</b>
Trade and other payables	31 December 2020	–	–	50,450	<b>50,450</b>

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

The fair value of financial assets and liabilities not carried at fair value approximate their carrying amounts as at 31 December 2021 and 2020.

*Valuation techniques and assumptions*

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the statement of financial position, but whose fair value is disclosed.

*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***22. Fair value measurement (continued)****Fair value of financial assets and liabilities not carried at fair value (continued)***Assets for which fair value approximates carrying value*

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

*Financial assets and financial liabilities carried at amortized cost*

Fair value of the quoted investment securities is based on price quotations at the reporting date. The fair value of unquoted investment securities, advances paid, borrowings under repurchase agreements is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

*Investment securities*

Investment securities valued using a valuation technique or pricing models primarily consist of unquoted debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

**23. Maturity analysis of assets and liabilities**

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

	31 December 2021			31 December 2020		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
<b>Assets</b>						
Cash and cash equivalents	61,735,164	-	61,735,164	18,099,905	-	18,099,905
Investment securities	23,156,454	-	23,156,454	4,244,680	9,702,041	13,946,721
Trade and other receivables	589,261	-	589,261	127,122	-	127,122
Property and equipment	-	228,326	228,326	-	149,055	149,055
Intangible assets	-	183,854	183,854	-	119,366	119,366
Right-of-use asset	-	256,929	256,929	16,260	-	16,260
Other assets	30,076	-	30,076	35,747	-	35,747
Current income tax assets	220,902	-	220,902	-	-	-
Deferred income tax assets	-	46,753	46,753	-	-	-
<b>Total assets</b>	<b>85,731,857</b>	<b>715,862</b>	<b>86,447,719</b>	<b>22,523,714</b>	<b>9,970,462</b>	<b>32,494,176</b>
<b>Liabilities</b>						
Advances received	58,495,296	-	58,495,296	15,646,869	-	15,646,869
Borrowings under repurchase agreements	19,481,770	-	19,481,770	10,280,428	-	10,280,428
Trade and other payables	540,857	-	540,857	324,808	-	324,808
Deferred revenue	-	-	-	17,157	-	17,157
Lease liability	-	159,518	159,518	17,509	-	17,509
Current income tax liabilities	-	-	-	550,391	-	550,391
Deferred income tax liabilities	-	-	-	-	66,734	66,734
Other liabilities	5,275	-	5,275	-	-	-
<b>Total liabilities</b>	<b>78,523,198</b>	<b>159,518</b>	<b>78,682,716</b>	<b>26,837,162</b>	<b>66,734</b>	<b>26,903,896</b>
<b>Net position</b>	<b>7,208,659</b>	<b>556,344</b>	<b>7,765,003</b>	<b>(4,313,448)</b>	<b>9,903,728</b>	<b>5,590,280</b>



*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***24. Related party transactions**

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

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

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year were as follows:

	31 December 2021				31 December 2020				
	Shareholder / ultimate owners	Entities under common control	Other	Key management personnel	Total	Shareholder / ultimate owners	Entities under common control	Other	Total
<b>Assets</b>									
Cash and cash equivalents	-	53,966,323	-	-	53,966,323	-	688,183	-	688,183
Trade and other receivables	-	42,696	-	2,770	45,466	-	19,472	1,727	21,199
<b>Total assets</b>	<b>-</b>	<b>54,009,019</b>	<b>-</b>	<b>2,770</b>	<b>54,011,789</b>	<b>-</b>	<b>707,655</b>	<b>1,727</b>	<b>709,382</b>
Advances received	-	14,833,050	22,270,830	75,869	37,179,749	-	-	54,471	54,471
Borrowings under repurchase agreements	11,106,209	-	-	-	11,106,209	3,052,213	7,228,215	-	10,280,428
Trade and other payables	-	27	-	-	27	-	-	-	-
<b>Total liabilities</b>	<b>11,106,209</b>	<b>14,833,077</b>	<b>22,270,830</b>	<b>75,869</b>	<b>48,285,985</b>	<b>3,052,213</b>	<b>7,228,215</b>	<b>54,471</b>	<b>10,334,899</b>
Interest revenue calculated using effective interest rate	-	-	-	-	-	-	14,932	-	14,932
Interest expense on borrowings under repurchase agreements	(66,911)	(303,281)	(7,444)	-	(377,636)	(86,448)	(205,010)	-	(291,458)
Net fee and commission income	12,221	623,813	-	5,153	641,187	21,098	713,009	12,701	746,808
Net gain from dealing with debt securities	-	42,160	-	9,794	51,954	-	64,079	13,081	77,160
Other operating and administrative expenses	-	-	-	-	-	-	(13,876)	-	(13,876)
Credit loss expense	-	(5,592)	-	-	(5,592)	-	368	(419)	(51)
Net gain from foreign currency translation differences	-	-	-	-	-	-	1,007	-	1,007
<b>Total income/ (expenses)</b>	<b>(54,690)</b>	<b>357,100</b>	<b>(7,444)</b>	<b>14,947</b>	<b>309,913</b>	<b>(65,350)</b>	<b>574,509</b>	<b>25,363</b>	<b>534,522</b>

Compensation of key management personnel that consisted of 3 members (2020: 2 members) comprises:

	For the year ended 31 December	
	2021	2020
Salaries and other short-term benefits	239,418	75,535
Social security costs	36,947	11,988
<b>Key management personnel compensation</b>	<b>276,365</b>	<b>87,523</b>

*(Amounts presented are in Azerbaijani manats, unless otherwise indicated)***25. Changes in liabilities arising from financing activities**

	<b>Note</b>	<b>Borrowings under repurchase agreements</b>
<b>Carrying amount at 31 December 2019</b>		<b>5,967,986</b>
Proceeds from borrowings		328,390,067
Repayment of borrowings		(324,085,113)
Accrued interest		7,488
<b>Carrying amount at 31 December 2020</b>	<b>13</b>	<b>10,280,428</b>
Proceeds from borrowings		2,951,317,302
Repayment of borrowings		(2,942,877,316)
Accrued interest		761,356
<b>Carrying amount at 31 December 2021</b>	<b>13</b>	<b>19,481,770</b>

**26. Events after the reporting period**

Subsequent to year end, in February 2022, due to the conflict between the Russian Federation and Ukraine, numerous sanctions have been announced by majority of western countries against the Russian Federation. These sanctions are targeted to have a negative economic impact on the Russian Federation.

The Company's management is monitoring the economic situation in the current environment and taking precautionary measures it considers necessary in order to support the liquidity of the Company's assets in the foreseeable future.