PASHA Capital Investment Company CJSC

Financial statements

Year ended 31 December 2020
together with independent auditor's report

Contents

Ernst & Young Holdings (CIS) B.V.
Port Baku Towers Business Centre
South Tower, 9th floor,
153, Neftchilar Ave.
Baku, AZ1010, Azerbaijan
Tel: +994 (12) 490 70 20
Fax: +994 (12) 490 70 17
www.ey.com/az

Ernst & Yanq Holdinqs (SiAyEs) Bi.Vi.
Port Baku Tauers Biznes Mərkəzi
Cənub Qülləsi, 9-cu mərtəbə
Neftçilər prospekti, 153
Bakı, AZ1010, Azərbaycan
Tel: +994 (12) 490 70 20
Faks: +994 (12) 490 70 17

Independent auditor's report

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

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 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of 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 2020, 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' 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 21 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 Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Ernst & Young Holdings (CIS) B.V.

28 April 2021

Baku, Azerbaijan

Statement of financial position

As at 31 December 2020

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

	Notes	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	5	18,099,905	3,671,135
Investment securities	6	13,946,721	8,112,583
Trade and other receivables		127,122	25,632
Property and equipment		149,055	47,459
Intangible assets		119,366	67,750
Right-of-use asset		16,260	55,285
Prepayments		35,747	29,696
Total assets		**32,494,176**	**12,009,540**
Liabilities			
Advances received	8	15,646,869	3,221,614
Borrowings under repurchase agreements	9	10,280,428	5,967,986
Trade and other payables	10	324,808	102,330
Deferred revenue		17,157	–
Lease liability		17,509	56,801
Current income tax liabilities		550,391	118,643
Deferred income tax liabilities	7	66,734	33,653
Total liabilities		**26,903,896**	**9,501,027**
Equity			
Share capital	11	300,000	300,000
Retained earnings		4,850,308	2,069,988
Net unrealized gains on investment securities	11	439,972	138,525
Total equity		**5,590,280**	**2,508,513**
Total liabilities and equity		**32,494,176**	**12,009,540**

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

Director Mr. Jeyhun Hajiyev

Finance Manager Mrs. Elmina Nabiyeva

28 April 2021

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2020

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

	Notes	*2020*	*2019*
Interest revenue calculated using effective interest rate	12	793,547	499,503
Interest expense on borrowings under repurchase agreements	9	(318,672)	(241,670)
Interest expense on lease liability		(3,744)	(3,857)
Net interest income		**471,131**	**253,976**
Credit loss expense on financial assets		(17,067)	(11,919)
Net interest income after credit loss expense		**454,064**	**242,057**
Net fee and commission income	13	1,449,546	838,204
Net gain from dealing with debt securities	14	2,438,575	419,716
Non-interest income		**3,888,121**	**1,257,920**
Personnel expenses	15	(504,268)	(226,389)
Other operating and administrative expenses	16	(333,543)	(176,174)
Depreciation and amortisation		(39,996)	(26,837)
Net gain from foreign currency translation differences		4,651	61
Non-interest expense		**(873,156)**	**(429,339)**
Profit before income tax expense		**3,469,029**	**1,070,638**
Income tax expense	7	(688,709)	(228,147)
Profit for the year		**2,780,320**	**842,491**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in fair value of debt instruments at fair value through other comprehensive income	6	364,734	152,894
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	6	12,075	20,262
Income tax relating to components of other comprehensive income	7	(75,362)	(34,631)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**301,447**	**138,525**
Total comprehensive income for the year		**3,081,767**	**981,016**

The accompanying notes on pages 5-32 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2020

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

	Share capital (Note 11)	*Retained earnings*	*Net unrealized gains on investment securities*	*Total equity*
As at 1 January 2019	**300,000**	**1,227,497**	**–**	**1,527,497**
Profit for the year	–	842,491	–	**842,491**
Other comprehensive income for the year	–	–	138,525	**138,525**
Total comprehensive income for the year	**–**	**842,491**	**138,525**	**981,016**
As at 31 December 2019	**300,000**	**2,069,988**	**138,525**	**2,508,513**
Profit for the year	–	2,780,320	–	**2,780,320**
Other comprehensive income for the year	–	–	301,447	**301,447**
Total comprehensive income for the year	**–**	**2,780,320**	**301,447**	**3,081,767**
As at 31 December 2020	**300,000**	**4,850,308**	**439,972**	**5,590,280**

The accompanying notes on pages 5-32 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2020

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

	Notes	2020	2019
Cash flows from operating activities			
Interest received		365,796	309,241
Interest paid		(239,758)	(233,184)
Fees and commissions received		1,453,079	908,422
Personnel expenses paid		(205,781)	(169,886)
Other operating and administrative expenses paid		(404,023)	(164,963)
Net realized gains on sale of investment securities		2,438,575	419,716
Cash flows from operating activities before changes in operating assets and liabilities		**3,407,888**	**1,069,346**
Net decrease in operating assets			
Prepayments		–	(4,845)
Net increase/(decrease) in operating liabilities			
Advances received		12,432,255	2,308,701
Trade and other payables		(138,221)	(18,487)
Net cash from operating activities before income tax		**15,701,922**	**3,354,715**
Income tax paid		(280,743)	(150,626)
Net cash from operating activities		**15,421,179**	**3,204,089**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		27,215,752	21,418,097
Purchase of investment securities		(32,294,216)	(27,816,660)
Purchase of property and equipment		(124,136)	(51,532)
Acquisition of intangible assets		(51,616)	(5,000)
Net cash used in investing activities		**(5,254,216)**	**(6,455,095)**
Cash flows from financing activities			
Proceeds from borrowings under repurchase agreements	22	328,390,067	273,673,680
Repayment of borrowings under repurchase agreements	22	(324,085,113)	(267,714,180)
Lease liability paid		(43,115)	(25,105)
Net cash from financing activities		**4,261,839**	**5,934,395**
Effect of ECL on cash and cash equivalents	5	(32)	(59)
Net increase in cash and cash equivalents		**14,428,770**	**2,683,330**
Cash and cash equivalents, beginning	5	3,671,135	987,805
Cash and cash equivalents, ending	5	**18,099,905**	**3,671,135**

The accompanying notes on pages 5-32 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 69 Nizami Street, Baku, AZ1005, the Republic of Azerbaijan.

As at 31 December 2020 and 2019, the Company is wholly owned by PASHA Holding LLC. As at 31 December 2020 and 2019, the ultimate beneficial owners of the Company are Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva and Mr. Arif Pashayev who exercise joint control over the Company.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and on the basis that the Company is going concern and will continue in operation for the foreseeable future.

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 thousands of Azerbaijani manats (AZN), except per share amounts and 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.

The Company presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 20.

Effect of COVID-19 pandemic

Due to the rapid spread of COVID-19 pandemic in 2020 many governments, including the Government of the Republic of Azerbaijan, the Government of the Republic of Turkey and the Government of the Republic of Georgia 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 recognised on the trade date i.e. the date that the Company 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.

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).

Debt securities at amortized cost

The Company only measures 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 19.

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 2020 and 2019. 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 recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expense will not be offset in the statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

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.

Prepayments

Prepayments are recognized and carried at the original amount less provision for any amount at risk of non-performance by the counterparty. The amount is used for settlement of purchases and sales of securities on stock market.

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:

	Years
Furniture and fixtures	5
Computers, communication and other equipment	5
Leasehold improvements	7

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.

Provisions and other obligations

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and 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. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

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.

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

3. Summary of significant accounting policies (continued)

Revenue and expense recognition (continued)

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.

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:

	31 December 2020	***31 December 2019***
1 US dollar	AZN 1.7000	AZN 1.7000
1 euro	AZN 2.0890	AZN 1.9035

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

3. Summary of significant accounting policies (continued)

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.

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.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16

In August 2020 the IASB issued *Interest Rate Benchmark Reform – Phase 2* Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The amendments come into effect from 1 January 2021, but entities may choose to apply them earlier. The amendments are not expected to have a significant impact on the Company's financial statements.

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).

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

4. Significant accounting judgments and estimates (continued)

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 19).

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).

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 2020 and 2019 its interpretation of the relevant legislation is appropriate and that the Company's tax position will be sustained.

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

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2020	*31 December 2019*
Current accounts with credit institutions	18,099,937	3,671,194
Less: allowance for impairment	(32)	(59)
Cash and cash equivalents	**18,099,905**	**3,671,135**

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 32 (31 December 2019: AZN 59).

6. Investment securities

Investment securities including those pledged under repurchase agreements comprise:

	31 December 2020	*31 December 2019*
Debt securities at amortised cost		
Eurobonds	–	8,707
Less: allowance for impairment	–	–
Debt securities at amortised cost	**–**	**8,707**
Debt securities at FVOCI		
Treasury bills of the Ministry of Finance	13,946,721	8,103,876
Debt securities at FVOCI	**13,946,721**	**8,103,876**
Investment securities	**13,946,721**	**8,112,583**

As at 31 December 2020, balances included accrued interest receivable of AZN 319,124 (31 December 2019: AZN 115,054). Investment securities are placed with effective interest rates in the range of 5.2%-11.9% p.a. (2019: 3.05%-11.7% p.a.) and maturing up to 5 September 2023 (31 December 2019: 20 December 2022).

As at 31 December 2020, debt securities at FVOCI in total amount of AZN 10,711,177 (31 December 2019: AZN 6,073,041) are pledged as collateral under repurchase agreements (Note 9). 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:

Debt securities at FVOCI	***2020 Stage 1***	***2019 Stage 1***
Gross carrying value as at 1 January	**8,103,876**	**–**
New assets originated or purchased	32,733,687	28,154,562
Assets repaid	(1,683,532)	(380,500)
Assets sold	(25,572,044)	(19,823,080)
Fair value increase	364,734	152,894
At 31 December	**13,946,721**	**8,103,876**

Debt securities at FVOCI	***2020 Stage 1***	***2019 Stage 1***
ECLs as at 1 January	**(20,262)**	**–**
New assets originated or purchased	(24,436)	(20,262)
Assets repaid	725	–
Assets sold	10,881	–
Changes to models and inputs used for ECL calculation	755	–
At 31 December	**(32,337)**	**(20,262)**

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

7. Taxation

The corporate income tax expense comprises:

	31 December 2020	*31 December 2019*
Current income tax charge	(730,990)	(220,620)
Deferred income tax charge	(33,081)	(42,158)
Deferred income tax recognized in other comprehensive income	75,362	34,631
Income tax expense	**(688,709)**	**(228,147)**

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

	31 December 2020	*31 December 2019*
Net gain on investment securities at fair value through OCI	(75,362)	(34,631)
Income tax relating to components of other comprehensive income	**(75,362)**	**(34,631)**

Standard profit tax rate comprises 20% for 2020 and 2019, 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 2020 and 2019 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:

	For the year ended 31 December	
	2020	*2019*
Profit before income tax expense	**3,469,029**	**1,070,638**
Statutory income tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**(693,806)**	**(214,128)**
Non-deductible expenses	(2,750)	(10,803)
Other	7,847	(3,216)
Income tax expense	**(688,709)**	**(228,147)**

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

		Origination and reversal of temporary differences		
	31 December 2019	*In the statement of profit or loss*	*In other comprehensive income*	*31 December 2020*
Tax effect of deductible temporary differences				
Cash and cash equivalents	12	(6)	–	6
Trade and other receivables	19,561	(18,386)	–	1,175
Trade and other payables	–	54,627	–	54,627
Lease liability	11,360	(7,858)	–	3,502
Deferred income tax asset	**30,933**	**28,377**	**–**	**59,310**
Tax effect of taxable temporary differences				
Investment securities	(40,384)	12,219	(75,362)	(103,527)
Property and equipment	(4,553)	(2,571)	–	(7,124)
Intangible assets	(8,239)	(2,060)	–	(10,299)
Right-of-use asset	(11,057)	7,805	–	(3,252)
Trade and other payables	(353)	353	–	–
Borrowings under repurchase agreements	–	(1,842)	–	(1,842)
Deferred income tax liability	**(64,586)**	**13,904**	**(75,362)**	**(126,044)**
Deferred income tax assets/(liabilities)	**(33,653)**	**42,281**	**(75,362)**	**(66,734)**

Taxes payable of the Company is comprised of current income tax liability in the amount of AZN 550,391 as at 31 December 2020 (31 December 2019: AZN 118,643).

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

8. Advances received

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

	31 December 2020	*31 December 2019*
Corporate customers	16,394	407,006
Individual customers	15,630,475	2,814,608
Advances received	**15,646,869**	**3,221,614**

9. Borrowings under repurchase agreements

Borrowings under repurchase agreements comprise the following transactions with:

	31 December 2020	*31 December 2019*
Non-related parties	–	4,967,750
Related parties	10,280,428	1,000,236
Borrowings under repurchase agreements	**10,280,428**	**5,967,986**

The Company's investment securities of AZN 10,711,177 (31 December 2019: 6,073,041) are pledged as collateral under these repurchase agreements (Note 6).

As at 31 December 2020, the Company's liabilities under these agreements were borrowed at interest rate ranging between 3%-7% p.a. (2019: 3%-4% p.a.) which amounted to interest expense of AZN 318,672 (2019: AZN 241,670).

10. Trade and other payables

Trade and other payables comprise the following:

	31 December 2020	*31 December 2019*
Financial liabilities		
Commission payables	50,450	4,527
	50,450	**4,527**
Non-financial liabilities		
Salaries, bonuses and other employee related payables	232,034	56,503
Accrued expenses	42,324	41,300
	274,358	**97,803**
Trade and other payables	**324,808**	**102,330**

11. Equity

As at 31 December 2020 and 2019, 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 439,972 (2019: AZN 138,525).

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

12. Interest revenue calculated using effective interest rate

Interest revenue calculated using effective interest rate comprises:

	For the year ended 31 December	
	2020	***2019***
Investment securities measured at FVOCI	793,107	494,497
Income from reverse repurchase agreements	–	4,432
Investment securities measured at amortized cost	440	574
Interest revenue calculated using effective interest rate	**793,547**	**499,503**

13. Net fee and commission income

Fee and commission income and expenses comprise:

	For the year ended 31 December	
	2020	***2019***
Brokerage services	1,363,001	796,955
Safekeeping services	278,311	207,401
Underwriting services	153,047	41,057
Fee and commission income	**1,794,359**	**1,045,413**
Custodian and bank services	(344,813)	(207,209)
Fee and commission expenses	**(344,813)**	**(207,209)**
Net fee and commission income	**1,449,546**	**838,204**

14. Net gain from dealing with debt securities

Net gain from dealing with debt securities comprises:

	For the year ended 31 December	
	2020	***2019***
Operations with own debt securities	107,330	231,574
Operations with customers' debt securities	2,331,245	188,142
Net gain from dealing with debt securities	**2,438,575**	**419,716**

15. Personnel expenses

Personnel expenses comprise:

	For the year ended 31 December	
	2020	***2019***
Salaries and bonuses	(422,113)	(192,215)
Social security costs	(67,457)	(31,091)
Other	(14,698)	(3,083)
Personnel expenses	**(504,268)**	**(226,389)**

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

16. Other operating and administrative expenses

Other operating and administrative expenses comprise:

	For the year ended 31 December	
	2020	***2019***
Professional services	(113,493)	(80,104)
Membership fees	(87,286)	(13,452)
Advertisement expenses	(17,854)	–
Bank charges	(14,909)	(10,080)
Commission expenses	(14,574)	(20,926)
Communication expenses	(12,871)	(6,568)
Rent expenses	–	(15,928)
Other	(72,556)	(29,116)
Other operating and administrative expenses	**(333,543)**	**(176,174)**

17. Commitments and contingencies

Operating environment

The Company conducts all 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 2019, the CBAR continued to ease monetary conditions while maintaining the stability of the Azerbaijani manat. As a result, the CBAR refinancing rate was reduced from 9.75% to 7.5%. On 28 February 2019, in accordance with the Decree of the President of the Azerbaijan Republic on problem loans, the government provided funds for compensation to citizens whose debt burden had increased due to devaluation of the Azerbaijani manat in 2015. This measure significantly reduced the amount of non-performing loans, as well as supporting capital and liquidity in the financial sector.

COVID-19 pandemic

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 moderately recovered by the end of the year. A support package was introduced by the Government and CBAR to counter the economic downturn caused by COVID-19. 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.

During 2020, the CBAR refinancing rate was reduced from 7.25% to 6.25%. Finally, significant foreign currency sales were made to maintain the stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the year.

By June-July 2020, many countries started to demonstrate signs of reduced spread of the pandemic. Governments started to gradually lift or ease restrictions. This tendency supported a recovery in global financial and commodity markets. However, the peak of the pandemic in Azerbaijan was reached during the months of October-December 2020, and as a result the lockdown measures became even more stringent. These measures resulted in a gradual reduction of coronavirus cases and elimination of most lockdown measures subsequently on 18 January 2021.

The Second Nagorno-Karabakh War

The Second Nagorno-Karabakh war started on 27 September 2020 and ended on 10 November 2020 with the signing of a ceasefire statement by the President of the Republic of Azerbaijan, the Prime Minister of the Republic of Armenia and the President of the Russian Federation. According to this statement, Azerbaijan regains control over the territories that had previously been occupied by Armenia. As of the date of the approval of these financial statements there are no major violations of the ceasefire statement.

Azerbaijan is getting ready to rebuild the liberated territories in accordance with modern urbanism and the region is entering a new period marked by construction, infrastructure work that is expected to reshape the outlook of the region.

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

17. Commitments and contingencies (continued)

The Second Nagorno-Karabakh War (continued)

Management of the Company expects increase in nominal GDP levels of Azerbaijan in the foreseeable future which will be caused by large infrastructure projects on liberated lands as well as due to unblocking of economic and transport communications in the region.

The Company's management is monitoring economic developments in the current environment and taking precautionary measures it considered necessary in order to support the sustainability and development of the Company's business in the foreseeable future. The Company considers its current liquidity position to be sufficient for the sustainable functioning. The Company monitors its liquidity position on daily basis.

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 2020, 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 2020, debt securities held on behalf of customers amounted to AZN 322,953,042 (31 December 2019: AZN 215,442,225).

18. 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)

18. 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.

	31 December 2020	***31 December 2019***
Cash and cash equivalents	18,099,937	3,671,194
Investment securities	13,946,721	8,112,583
Trade and other receivables	132,996	26,487
Maximum exposure to credit risk	**32,179,654**	**11,810,264**

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

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

18. 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 unlikeliness 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.

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

18. Risk management (continued)

Credit risk (continued)

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.

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:

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

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

18. Risk management (continued)

Credit risk (continued)

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.

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 2020.

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

31 December 2019		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents	Stage 1	−	3,671,194	−	−	**3,671,194**
Investment securities	Stage 1	8,112,583	−	−	−	**8,112,583**
Trade and other receivables	Stage 1	−	−	26,487	−	**26,487**
Total		**8,112,583**	**3,671,194**	**26,487**	**−**	**11,810,264**

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.

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

18. Risk management (continued)

Liquidity risk (continued)

The tables below summarize the maturity profile of the Company's financial liabilities as at 31 December 2020 and 2019 based on contractual undiscounted repayment obligations.

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

As at 31 December 2019	*Less than 3 months*	*3 to 6 months*	*6 to 12 months*	*Over 1 year*	*Total*
Advances received	3,221,614	–	–	–	**3,221,614**
Borrowings under repurchase agreements	5,967,986	–	–	–	**5,967,986**
Lease liability	10,759	10,759	21,518	17,932	**60,968**
Trade and other payables	4,527	–	–	–	**4,527**
Total undiscounted financial liabilities	**9,204,886**	**10,759**	**21,518**	**17,932**	**9,255,095**

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.

Geographical concentration

The geographical concentration of the Company's financial assets and liabilities as at 31 December 2020 and 2019 was as follows. The disclosure is based on in which countries the counterparties are situated.

	2020			*2019*		
	Azerbaijan	*CIS and non-OECD countries*	*Total*	*Azerbaijan*	*CIS and non-OECD countries*	*Total*
Assets						
Cash and cash equivalents	688,183	17,411,722	**18,099,905**	2,577,246	1,093,889	**3,671,135**
Investment securities	13,946,721	–	**13,946,721**	8,103,876	8,707	**8,112,583**
Trade and other receivables	114,136	12,986	**127,122**	25,632	–	**25,632**
Total financial assets	**14,749,040**	**17,424,708**	**32,173,748**	**10,706,754**	**1,102,596**	**11,809,350**
Liabilities						
Advances received	15,646,869	–	**15,646,869**	3,221,614	–	**3,221,614**
Borrowings under repurchase agreements	10,280,428	–	**10,280,428**	5,967,986	–	**5,967,986**
Lease liability	17,509	–	**17,509**	56,801	–	**56,801**
Trade and other payables	50,450	–	**50,450**	4,527	–	**4,527**
Total financial liabilities	**25,995,256**	**–**	**25,995,256**	**9,250,928**	**–**	**9,250,928**
Net financial position	**(11,246,216)**	**17,424,708**	**6,178,492**	**1,455,826**	**1,102,596**	**2,558,422**

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

18. Risk management (continued)

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.

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 2020 and 2019 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.

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

18. Risk management (continued)

Market risk (continued)

	AZN	*USD*	*XAU*	*Other*	*Total 2020*
Assets					
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**
Total financial assets	**14,383,844**	**13,827,333**	**3,749,991**	**212,580**	**32,173,748**
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**
Total financial liabilities	**10,350,346**	**11,777,314**	**3,749,991**	**117,605**	**25,995,256**
Net financial position	**4,033,498**	**2,050,019**	**–**	**94,975**	**6,178,492**

As at 31 December 2019, the Company had the following exposure to foreign currency exchange rate risk:

	AZN	*USD*	*Other*	*Total 2019*
Assets				
Cash and cash equivalents	256,999	3,398,089	16,047	**3,671,135**
Investment securities	8,103,876	8,707	–	**8,112,583**
Trade and other receivables	25,632	–	–	**25,632**
Total financial assets	**8,386,507**	**3,406,796**	**16,047**	**11,809,350**
Advances received	–	3,221,614	–	**3,221,614**
Borrowings under repurchase agreements	5,967,986	–	–	**5,967,986**
Lease liability	56,801	–	–	**56,801**
Trade and other payables	4,527	–	–	**4,527**
Total financial liabilities	**6,029,314**	**3,221,614**	**–**	**9,250,928**
Net financial position	**2,357,193**	**185,182**	**16,047**	**2,558,422**

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

	2020			
	USD/AZN (+20%)	***USD/AZN (-3%)***	***XAU/AZN (+22%)***	***XAU (-15%)***
Effect on profit before income tax expense	410,004	(61,501)	763,186	520,354

	2019			
	USD/AZN (+20%)	***USD/AZN (-3%)***	***XAU/AZN (+22%)***	***XAU (-15%)***
Effect on profit before income tax expense	18,518	(5,555)	–	–

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

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

19. 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:

31 December 2020	*Date of valuation*	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value					
Investment securities – at FVOCI	31 December 2020	−	13,946,721	−	**13,946,721**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2020	18,099,905	−	−	**18,099,905**
Trade and other receivables	31 December 2020	−	−	127,122	**127,122**
Liabilities for which fair values are disclosed					
Advances received	31 December 2020	15,646,869	−	−	**15,646,869**
Borrowings under repurchase agreements	31 December 2020	−	10,280,428	−	**10,280,428**
Trade and other payables	31 December 2020	−	−	50,450	**50,450**

31 December 2019	*Date of valuation*	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value					
Investment securities – at FVOCI	31 December 2019	−	8,103,876	−	**8,103,876**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2019	3,671,135	−	−	**3,671,135**
Investment securities measured at amortised cost	31 December 2019	8,707	−	−	**8,707**
Trade and other receivables	31 December 2019	−	−	25,632	**25,632**
Liabilities for which fair values are disclosed					
Advances received	31 December 2019	3,221,614	−	−	**3,221,614**
Borrowings under repurchase agreements	31 December 2019	−	5,967,986	−	**5,967,986**
Trade and other payables	31 December 2019	−	−	4,527	**4,527**

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 2020 and 2019.

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)

19. 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.

20. 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 2020			*31 December 2019*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	18,099,905	–	**18,099,905**	3,671,135	–	**3,671,135**
Investment securities	4,244,680	9,702,041	**13,946,721**	1,959,476	6,153,107	**8,112,583**
Trade and other receivables	127,122	–	**127,122**	25,632	–	**25,632**
Property and equipment	–	149,055	**149,055**	–	47,459	**47,459**
Intangible assets	–	119,366	**119,366**	–	67,750	**67,750**
Right-of-use asset	16,260	–	**16,260**	39,025	16,260	**55,285**
Prepayments	35,747	–	**35,747**	–	29,696	**29,696**
Total assets	**22,523,714**	**9,970,462**	**32,494,176**	**5,695,268**	**6,314,272**	**12,009,540**
Liabilities						
Advances received	15,646,869	–	**15,646,869**	3,221,614	–	**3,221,614**
Borrowings under repurchase agreements	10,280,428	–	**10,280,428**	5,967,986	–	**5,967,986**
Lease liability	17,509	–	**17,509**	39,291	17,510	**56,801**
Current income tax liabilities	550,391	–	**550,391**	118,643	–	**118,643**
Deferred income tax liabilities	–	66,734	**66,734**	–	33,653	**33,653**
Deferred revenue	17,157	–	**17,157**	–	–	**–**
Trade and other payables	324,808	–	**324,808**	102,330	–	**102,330**
Total liabilities	**26,837,162**	**66,734**	**26,903,896**	**9,449,864**	**51,163**	**9,501,027**
Net position	**(4,313,448)**	**9,903,728**	**5,590,280**	**(3,754,596)**	**6,263,109**	**2,508,513**

Negative gap is due to significant concentration of borrowings under repurchase agreements, which are secured by pledged debt securities, for the period of up to 30 days. Management believes that this level of funding will remain with the Company for the foreseeable future and that in the event of repayment of funds, the Company would have sufficient time to realise its liquid assets to enable repayment.

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

21. 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 2020				*31 December 2019*			
	Share-holder / ultimate owners	*Entities under common control*	*Other*	*Total*	*Share-holder / ultimate owners*	*Entities under common control*	*Other*	*Total*
Assets								
Cash and cash equivalents	–	688,183	–	**688,183**	–	2,577,245	–	**2,577,245**
Trade and other receivables	–	19,472	1,727	**21,199**	58	15,033	–	**15,091**
Total assets	**–**	**707,655**	**1,727**	**709,382**	**58**	**2,592,278**	**–**	**2,592,336**
Advances received	–	–	54,471	**54,471**	–	–	635,408	**635,408**
Borrowings under repurchase agreements	3,052,213	7,228,215	–	**10,280,428**	1,000,236	–	–	**1,000,236**
Total liabilities	**3,052,213**	**7,228,215**	**54,471**	**10,334,899**	**1,000,236**	**–**	**635,408**	**1,635,644**
Interest revenue calculated using effective interest rate	–	14,932	–	**14,932**	–	4,432	–	**4,432**
Interest expense on borrowings under repurchase agreements	(86,448)	(205,010)	–	**(291,458)**	(52,983)	(91,247)	(30,074)	**(174,304)**
Net fee and commission income	21,098	713,009	12,701	**746,808**	6,084	503,701	473	**510,258**
Net gain from dealing with debt securities	–	64,079	13,081	**77,160**	–	327,563	10,415	**337,978**
Personnel expenses	–	(12,743)	–	**(12,743)**	–	(1,303)	–	**(1,303)**
Other operating and administrative expenses	–	(13,876)	–	**(13,876)**	–	(10,080)	–	**(10,080)**
Credit loss expense	–	368	(419)	**(51)**	(2)	(678)	–	**(680)**
Net gain from foreign currency translation differences	–	1,007	–	**1,007**	–	59	–	**59**
Total income/ (expenses)	**(65,350)**	**561,766**	**25,363**	**521,779**	**(46,901)**	**732,447**	**(19,186)**	**666,360**

Compensation of key management personnel that consisted of 2 members (2019: 2 members) comprises:

	For the year ended 31 December	
	2020	*2019*
Salaries and other short-term benefits	105,595	75,535
Social security costs	16,703	11,988
Key management personnel compensation	**122,298**	**87,523**

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

22. Changes in liabilities arising from financing activities

	Note	*Borrowings under repurchase agreements*
Carrying amount at 31 December 2018		**–**
Proceeds from issue		273,673,680
Redemption		(267,714,180)
Other		8,486
Carrying amount at 31 December 2019	9	**5,967,986**
Proceeds from issue		328,390,067
Redemption		(324,085,113)
Other		7,488
Carrying amount at 31 December 2020	9	**10,280,428**

23. Subsequent events

The strict special quarantine regime measures introduced by the Azerbaijani Government to combat the COVID-19 outbreak, such as travel restrictions, quarantines, closure of business and other venues, lockdowns of certain areas throughout the country ceased on 18 January 2020.

Based on the order of Cabinet of Ministers on “Vaccination Strategy covering 2021-2022 years” dated 16 January 2021, gradual vaccination of Azerbaijan population has started, and approximately 7% of the population has already been vaccinated as of the date of issuance of these financial statements.