“TBC KREDIT NON-BANK CREDIT ORGANIZATION” LIMITED LIABILITY COMPANY

The International Financial Reporting Standards Financial Statements and Independent Auditors’ Report

For the Year Ended December 31, 2020

"TBC KREDIT NON-BANK CREDIT ORGANIZATION" LLC

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the financial statements of "TBC Kredit Non-Bank Credit Organization" Limited Liability Company (the "Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at December 31, 2020, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended December 31, 2020 were authorized for issue on May 20, 2021 by the Management Board of the Company.

On behalf of the Management Board:

Mr. Ajdar Aliyev

General Director
Baku, the Republic of Azerbaijan

May 20, 2021

Mr. Chingiz Abdullayev

Chief Accountant
Baku, the Republic of Azerbaijan

May 20, 2021

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Management Board of "TBC Kredit Non-Bank Credit Organization" Limited Liability Company.

Opinion

We have audited the financial statements of "TBC Kredit Non-Bank Credit Organization" Limited Liability Company (the "Company"), which comprise the statement of financial position as at December 31, 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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

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Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baker Tilly Azerbaijan

May 20, 2021
Baku, the Republic of Azerbaijan

"TBC KREDIT NON-BANK CREDIT ORGANIZATION" LIMITED LIABILITY COMPANY

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2020

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2020	Year ended December 31, 2019
Interest income	7	2,218	3,088
Interest expense	7	(479)	(624)
Net interest income		**1,739**	**2,464**
Fee and commission expense	8	(21)	(37)
Net gain on foreign exchange operations		2	-
Operating income		**1,720**	**2,427**
Recovery of expected credit losses on financial assets	13, 14	868	673
Net fair value gain on initial recognition of financial instruments	19	162	-
Gain from sale of financial assets		203	-
Other operating income, net		111	22
Change in fair value of assets held for sale	16	(148)	(61)
Personnel expenses	9	(1,508)	(1,664)
General and administrative expenses	10	(1,030)	(1,047)
Charge of expected credit losses on other financial assets	17	-	(54)
Profit before income tax		**378**	**296**
Income tax benefit/(expense)	11	12	(48)
Net profit for the year		**390**	**248**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income for the year		**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**390**	**248**

On behalf of the Management Board:

Mr. Ajdar Aliyev

General Director
Baku, the Republic of Azerbaijan

May 20, 2021

Mr. Chingiz Abdullayev

Chief Accountant
Baku, the Republic of Azerbaijan

May 20, 2021

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

"TBC KREDIT NON-BANK CREDIT ORGANIZATION" LIMITED LIABILITY COMPANY

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Cash and cash equivalents	12	449	460
Loans to customers	13	11,049	12,497
Finance leases	14	330	660
Current income tax asset		81	85
Property and equipment	15	405	1,655
Intangible assets	15	15	40
Assets held for sale	16	217	303
Deferred income tax asset	11	169	139
Other financial assets	17	76	148
Other assets		27	48
TOTAL ASSETS		**12,818**	**16,035**
LIABILITIES			
Due to banks	18	3,731	6,875
Term borrowings	19	594	-
Lease liability	20	248	1,353
Other financial liabilities		103	121
Other liabilities	21	194	128
TOTAL LIABILITIES		**4,870**	**8,477**
EQUITY			
Charter capital	22	8,453	8,453
Accumulated deficit		(505)	(895)
TOTAL EQUITY		**7,948**	**7,558**
TOTAL LIABILITIES AND EQUITY		**12,818**	**16,035**

On behalf of the Management Board:

Mr. Ajdar Aliyev

General Director
Baku, the Republic of Azerbaijan

May 20, 2021

Mr. Chingiz Abdullayev

Chief Accountant
Baku, the Republic of Azerbaijan

May 20, 2021

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"TBC KREDIT NON-BANK CREDIT ORGANIZATION" LIMITED LIABILITY COMPANY

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020
(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Charter capital	Accumulated deficit	Total equity
January 1, 2019	**8,453**	**(1,143)**	**7,310**
Net profit and other comprehensive income for the year	-	248	248
December 31, 2019	**8,453**	**(895)**	**7,558**
Net profit and other comprehensive income for the year	-	390	390
December 31, 2020	**8,453**	**(505)**	**7,948**

On behalf of the Management Board:

Mr. Ajdar Aliyev

General Director
Baku, the Republic of Azerbaijan

May 20, 2021

Mr. Chingiz Abdullayev

Chief Accountant
Baku, the Republic of Azerbaijan

May 20, 2021

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“TBC KREDIT NON-BANK CREDIT ORGANIZATION” LIMITED LIABILITY COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2020	Year ended December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		2,692	2,988
Interest paid		(457)	(824)
Fee and commission paid		(21)	(37)
Administrative and operating expenses paid		(560)	(867)
Personnel expenses paid		(1,454)	(1,615)
Income received from sale of loans		203	-
Other operating income received, net		23	22
Cash flows provided from/(used in) operating activities before changes in operating assets and liabilities		426	(333)
Changes in operating assets and liabilities			
Net change in loans and advances to customers		1,825	5,363
Net change in finance leases		285	190
Net change in other operating assets and liabilities		55	3,838
Net cash provided from operating activities before income tax is paid		**2,591**	**9,058**
Income tax paid		(14)	(10)
Net cash provided from operating activities		**2,577**	**9,048**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of premises and equipment		4	5
Acquisition of property and equipment	15	(18)	(316)
Acquisition of intangible assets	15	(1)	(1)
Net cash used in investing activities		**(15)**	**(312)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of term borrowings	19	728	-
Repayment of term borrowings	19	-	(3,400)
Repayment of debt securities issued		-	(3,400)
Proceeds from resident banks	18	-	2,300
Repayment to resident banks	18	(3,138)	(3,820)
Repayment of principal portion of lease liabilities	20	(165)	(148)
Net cash used in financing activities		**(2,575)**	**(8,468)**
Effect of exchange rate changes on the balance of cash and cash equivalents		2	-
Net (decrease)/increase in cash and cash equivalents		**(11)**	**268**
Cash and cash equivalents at the beginning of the year	12	460	192
Cash and cash equivalents at the end of the year	12	**449**	**460**

On behalf of the Management Board:

Mr. Ajdar Aliyev

General Director
Baku, the Republic of Azerbaijan

May 20, 2021

Mr. Chingiz Abdullayev

Chief Accountant
Baku, the Republic of Azerbaijan

May 20, 2021

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

1 INTRODUCTION

Organization and operations

“TBC Kredit Non-Bank Credit Organization” Limited Liability Company (the “Company”) was incorporated and domiciled in the Republic of Azerbaijan. The Company is a limited liability company and was set up in accordance with Azerbaijani regulations.

The Company was founded as a non-bank credit organization on December 7, 1999 as Shore Overseas Azerbaijan and re-registered on April 7, 2006 as “SOA Kredit” Limited Liability Company, then on July 28, 2008 as “TBC Kredit Non-bank Credit Organization” Limited Liability Company with the state registration number 1400233171 (TIN).

The principal activity of the Company is commercial lending operations within the Republic of Azerbaijan. The activities of the Company are regulated by the Central Bank of Azerbaijan Republic (“CBAR”) and business functions are performed under the non-bank credit organization’s license for limited banking operations issued by the CBAR. The legal address of the Company is: 71/77 28 May Street, Baku, Azerbaijan.

As at December 31, 2020 the Company had 3 branches (2019: 10 branches). The number of branched has gone down significantly due to changes in Company’s sales strategy. The Company tries to increase sales in micro and small business sectors, rather than general retail, with more direct sales and does not need a large number of sales points. The parent of the Company is Georgia based JSC “TBC Bank” who owns 100% of the Company’s charter capital.

The Company is ultimately controlled by JSC “TBC Bank”.

Business environment

The Company’s operations are conducted in the Republic of Azerbaijan. There were a number of significant changes in the operating and economic environment during the year 2020, which had an impact on the Company’s business activities.

In March 2020 the World Health Organization (WHO) announced that the spread of the COVID-19 virus across the globe was a pandemic. Significant restrictions on travel and movement of individuals and the closure of non-essential businesses have either been imposed in most countries or have happened as a result of the pandemic. This has led to significant declines in GDP in most if not all large economically strong countries in which the Republic of Azerbaijan is in a trade relationship. The global economy was negatively impacted by the coronavirus pandemic (COVID-19) spread in the first half of 2020. Starting from June 2020 many countries including the Republic of Azerbaijan demonstrated improvement in the signs of pandemic and certain restrictions were lifted subsequently.

As a result, recovery in global financial and commodity markets observed. However, subsequently the number of reported cases significantly increased in the Republic of Azerbaijan, and the government introduced new restrictions from mid-December 2020.

The restrictive lock-down measures to combat COVID-19 in the country significantly reduced economic activity and aggregate spending levels. Certain segments of the economy, such as hotels, transport, travel, entertainment and many other businesses also international trade much affected by these measures.

Oil prices have decreased significantly due to the substantial reduction in oil consumption in the pandemic environment but demonstrated stable growth during the second quarter of 2020. The government introduced support packages in the form of subsidized lending tools, payments to unemployed individuals and other subsidies to the entrepreneurs during the year to compensate for the economic slowdown caused by the pandemic.

On April 24, 2020, the Central Bank of Azerbaijan approved a package of additional measures “Procedure for the Temporary Regulation of Credit Institutions in the Context of the Coronavirus Pandemic”. This procedure is designed to reduce the possible negative impact of the COVID-19 pandemic on the banking sector of the Republic of Azerbaijan and determines the classification of loans and risk groups, capital adequacy ratio and its calculation in banks and non-bank credit organizations operating in the Republic of Azerbaijan. According to the rules, concessions should be considered during the classification of loans and credit restructuring cases that meet the criteria.

The Company’s operations are conducted in the Republic of Azerbaijan. Azerbaijan continues economic reforms and the development of its legal, tax and regulatory frameworks. The future stability of Azerbaijan’s economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government as well as crude oil prices and stability of Azerbaijani Manat. Although the economy of the Republic of Azerbaijan is particularly sensitive to oil and gas prices, during recent years the Government of the Republic of Azerbaijan initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce dependence on the oil and gas sector. GDP in Azerbaijan was USD 42.6 billion during the year 2020, according to the State Statistical Committee of the Republic of Azerbaijan. In the long-term, the Azerbaijan GDP is projected to trend around USD 50 billion in 2021 and USD 51 Billion in 2022, according to our econometric models.

The government continued its monetary policy with respect to the stability of Azerbaijani Manat as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy continued in 2020 with the aim of maintaining macroeconomic stability. The Central Bank of the Republic of Azerbaijan has changed the refinancing rate several times during the year and the range was between 7.25% - 6.25% with a steady decrease in rates.

The Company’s management is monitoring changes in the macroeconomic environment and taking precautionary measures it considers necessary in order to support the sustainability and development of the Company’s business in the foreseeable future.

International credit rating agencies regularly evaluate the credit rating of the Republic of Azerbaijan. Fitch and S&P evaluated the rating of the Republic of Azerbaijan as “BB+”. Moody’s Investors Service set “Ba2” credit rating for the country.

The future economic growth of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The Management is unable to predict, all developments in the economic environment which would have an impact on the Company’s operations and consequently what effect, if any, they could have on the financial position of the Company. The management is currently performing sensitivity analyses under different oil price scenarios and elaborating relevant action plans for maintaining the sustainability of the business.

In September 2020, the escalation of unresolved conflict in Karabakh region (located in the southwest, which is internationally recognized as part of the Republic of Azerbaijan) resulted in clashes between the Republic of Azerbaijan and Armenian forces in occupied territories. In response, both countries introduced a curfew and military mobilization. Although the military actions mainly occurred in the western part of the Republic of Azerbaijan, some businesses were affected by the curfew which covered all the territories of the Republic of Azerbaijan including the capital Baku, to a certain degree. A complete ceasefire and a cessation of all hostilities in the zone of the Karabakh conflict were achieved on November 10, 2020. The level of macroeconomic effects in which the state involvement in liberated regions is uncertain as of reporting date.

These events and conditions described above created a level of uncertainty and risk that companies have not encountered before. The above-mentioned events had a significant effect on the financial results of the Company during the year ended December 31, 2020 and in the subsequent period.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

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

AZN is also the presentation currency for the purposes of these financial statements. Financial information presented in AZN is rounded to the nearest thousand except when otherwise stated.

Going concern

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

Interest

Effective interest rate

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

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

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

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

Amortized cost and gross carrying amount

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

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

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

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

For information on when financial assets are credit-impaired, see further Note 3.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortized cost;

Interest expense presented in the statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortized cost;

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on net investments in finance leases.

Foreign currency transactions

Monetary assets and liabilities are translated into the Company’s functional currency at the official exchange rate of the CBAR at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Company’s functional currency at year-end official exchange rates of the CBAR, are recognized in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The exchange rates used by the Company in the preparation of the financial statements as at year-end are as follows:

	December 31, 2020	December 31, 2019
AZN/US Dollar 1	1.7000	1.7000
AZN/Euro 1	2.0890	1.9035

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Financial assets and financial liabilities

Classification

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

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

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

Business model assessment

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

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

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

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

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

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

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

Reclassification

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

The Company should reclassify financial assets if the Company changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Company's senior management as a result of external or internal changes and must be significant to the Company's operations and demonstrable to external parties. Accordingly, a change in the Company's business model will occur only when the Company either begins or ceases to perform an activity that is significant to its operations; for example, when the Company has acquired, disposed of or terminated a business line.

Financial liabilities

The Company classified its financial liabilities as measured at amortized cost.

Financial liabilities are not reclassified subsequent to their initial recognition.

Financial assets

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

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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

- change the currency of the financial liability;
- inclusion of conversion option;
- change in the subordination of the financial liability.

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

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

Expected credit losses

The Company recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL: financial assets that are debt instruments; lease receivables. The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt instruments that are determined to have low credit risk at the reporting date;
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 24).

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized are referred to as 'Stage 2' financial instruments if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- the borrower is past due more than 90 days on any material credit obligation to the Company.
- restrictions on the use of account balances or late payments on Company's bank deposits last more than 7 days.
- significant financial difficulty of the borrower.
- the restructuring of a loan on terms that the Company would not consider otherwise.

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL for financial assets measured at amortized cost are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Write-offs

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

Recoveries of amounts previously written off are included in 'expected credit losses' in the statement of profit or loss and other comprehensive income.

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

Income and expense recognition

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

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

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expenses, over the term of the lease.

Loans to customers

'Loans to customers' caption in the year end statement of financial position includes loans to customers measured at amortized cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

Finance lease receivables

Where the Company is a lessor in a lease that substantially transfers all risks and rewards incidental to ownership to the lessee, the assets leased out are presented as investments in finance leases and carried at the present value of the future lease payments. Investments in finance leases are initially recognized at commencement (when the lease term begins) using a discount rate determined at inception (the early date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs is directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

At each reporting date the Company assesses whether there is any indication of impairment of property and equipment. If such indication exists, the Company estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of property and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as an impairment loss to the statement of profit or loss.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and recorded as gain/(loss) in the statement of profit or loss.

Repairs and maintenance are charged to the statement of profit or loss when the expense is incurred.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition. The estimated useful lives are as follows:

- Office and computer equipment	5 years
- Furniture and fixture	10 years
- Vehicles	4-5 years
- Leasehold improvement	shorter of useful life and the term of the underlying lease
- Right of use assets	over the term of the underlying lease

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

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

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

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets are 5-10 years.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

Provisions

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

Charter capital

Charter capital is the amount of capital contributed by all participants. The total numbers of shares are proportionate division between participants in charter capital of the Company. The Company may increase or decrease its charter capital with approval of the General Meeting of Participants.

Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of Azerbaijan legislation.

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

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that affect neither accounting nor taxable profit nor loss.

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

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

Deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Assets held for sale

Assets held for sale represents financial and non-financial assets acquired by the Company in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and Company’s intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Debt securities in issue

Debt securities in issue include Eurobonds (securities denominated in US dollars) issued by the Company. Debt securities are stated at amortized cost. If the Company purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Term borrowings

Term borrowings include loans from non-resident banks and other financial institutions with fixed maturities and fixed or floating interest rates. Term borrowings are carried at amortized cost.

Due to banks

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

Leases

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

Company as a lessee

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 recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

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

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

Lease liabilities

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the amounts recognized in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Measurement of ECL allowance. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 23. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default (“PD”), exposure at default (“EAD”), and loss given default (“LGD”), as well as models of macro-economic scenarios. The Company regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. For details of ECL measurement including incorporation of forward-looking information refer to Note 23.

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Company assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Company applies judgment in deciding whether credit impaired renegotiated loans should be derecognized and whether the new recognized loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognized nor reclassified out of the credit-impaired stage.

Useful life of premises and equipment. The Company assesses the remaining useful lives of items of property and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. These estimates may have a material impact on the amount of the carrying values of property and equipment and on depreciation recognized in profit or loss.

Valuation of lease liabilities and right of use assets. The application of IFRS 16 requires to make judgements of right of use assets and lease liabilities. In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise renewal options (or not to exercise termination options). Assessing whether a contract includes a lease also requires judgement. Estimates are required to determine the appropriate discount rate used to measure lease liabilities.

Deferred income tax asset recognition. The carrying value of deferred income tax assets amounted to AZN 169 thousand and AZN 139 thousand as at December 31, 2020 and 2019, respectively. Management is confident that the carrying amount of deferred income tax asset will be fully realized in the future.

5 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Company has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending in December 31, 2020.

IASB has published **“Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)”** as a first reaction to the potential effects the IBOR reform could have on financial reporting. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Company as it does not have any interest rate hedge relationships.

IFRS 3 Business Combinations. Amendment of the definition of “Business” – The amendments will help companies determine whether an acquisition made is of a business or a group of assets.

The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business.

According to the amendment new definition a “business” is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

New definition of “Material” – The IASB has issued amendments to its definition of material to make it easier for companies to make materiality judgements. The updated definition amends IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

On May 15, 2020 IASB has published **“COVID-19-Related Rent Concessions (Amendment to IFRS 16)”** amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

The changes in COVID-19-Related Rent Concessions (Amendment to IFRS 16) amend IFRS 16 to:

- provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;
- require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications;
- require lessees that apply the exemption to disclose that fact; and
- require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures.

The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. The impact of the adoption of this standard had no effect on the financial statements.

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

6 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

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

IFRS 17 "Insurance contracts" was issued in May 2017 and replaced IFRS 4 "Insurance contracts". The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. An entity shall apply IFRS 17 "Insurance Contracts" to insurance contracts, including reinsurance contracts, it issues; reinsurance contracts it holds; and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied.

Amendments to IAS 1 to clarify the classification of liabilities – In January 2020 the IASB has issued **"Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)"** providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Earlier application is permitted.

Reference to the Conceptual Framework – Amendments to IFRS 3 – In May 2020, the IASB issued Amendments to IFRS 3 "Business Combinations" – **Reference to the Conceptual Framework**. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 – In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 – In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under thecontract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Subsidiary as a first-time adopter. As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards". The amendment permits a subsidiary that elects to apply paragraph D16 (a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

IFRS 9 Financial Instruments – **Fees in the "10 percent" 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 January 1, 2022 with earlier adoption permitted. The Group will apply the amendments 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.

"IAS 41 Agriculture" – Taxation in fair value measurements – As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued an amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

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

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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

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

7 NET INTEREST INCOME

	Year ended December 31, 2020	Year ended December 31, 2019
Interest income calculated using the effective interest method		
Loans and advances to customers	2,065	2,823
Interest income on finance leases	144	260
Current accounts and overnight placements with banks	9	5
Total interest income calculated using the effective interest method	**2,218**	**3,088**
Interest expense calculated using the effective interest method		
Due to banks	(315)	(371)
Lease liability	(136)	(107)
Term borrowings	(28)	(51)
Debt securities in issue	-	(95)
Total interest expense calculated using the effective interest method	**(479)**	**(624)**
Net interest income	**1,739**	**2,464**

8 FEE AND COMMISSION EXPENSE

	Year ended December 31, 2020	Year ended December 31, 2019
Settlement transactions	(14)	(22)
Others	(7)	(12)
Brokerage services	-	(3)
Total fee and commission expenses	**(21)**	**(37)**

9 PERSONNEL EXPENSES

	Year ended December 31, 2020	Year ended December 31, 2019
Employee compensation	(1,325)	(1,475)
Contributions to State Social Security Fund	(183)	(189)
Total personnel expenses	**(1,508)**	**(1,664)**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

10 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2020	Year ended December 31, 2019
Depreciation and amortization	(438)	(297)
Communication expenses	(111)	(113)
Professional services fees	(104)	(156)
Rent expenses	(99)	(146)
Software maintenance costs	(83)	(73)
Advertising and marketing expenses	(32)	(53)
Corporate social responsibility (included AZN 15 thousand COVID-19 related expenses)	(28)	-
Utilities	(24)	(29)
Office supplies	(21)	(24)
Taxes other than income tax	(17)	(8)
Payments to the regulator	(8)	(50)
Others	(65)	(98)
Total general and administrative expenses	**(1,030)**	**(1,047)**

11 INCOME TAX EXPENSE

	Year ended December 31, 2020	Year ended December 31, 2019
Current year tax expense	(18)	(75)
Movement in deferred income tax assets due to origination and reversal of temporary differences	30	27
Total income tax benefit/(expense)	**12**	**(48)**

In 2020, the applicable tax rate for current and deferred tax is 20% (2019: 20%).

Reconciliation of effective tax rate for the year ended December 31:

	Year ended December 31, 2020	Year ended December 31, 2019
Profit before tax	378	296
Income tax at the applicable tax rate (20%)	(76)	(59)
Tax effect of permanent differences	88	11
Income tax benefit/(expense)	**12**	**(48)**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Deferred income tax assets and liabilities

Differences between IFRS and the Azerbaijani statutory taxation rules give rise to certain temporary differences between the carrying value of certain assets and liabilities for purposes of financial reporting and income tax calculation. The tax effect of the movements in these temporary differences is recorded at the rate of 20%.

Movements in temporary and deductible differences during the years ended December 31, 2020 and 2019 are presented as follows:

	January 1, 2020	Recognized in profit or loss	December 31, 2020
Loans to customers	10	7	17
Finance lease	1	-	1
Assets held for sale	80	29	109
Lease liability	271	(221)	50
Other liabilities	25	11	36
Other assets	13	6	19
Property, equipment and intangible assets	(261)	225	(36)
Term borrowings	-	(27)	(27)
	139	**30**	**169**

	January 1, 2019	Recognized in profit or loss	December 31, 2019
Loans to customers	25	(15)	10
Finance lease	-	1	1
Assets held for sale	68	12	80
Lease liability	-	271	271
Other liabilities	13	12	25
Other assets	6	7	13
Property, equipment and intangible assets	-	(261)	(261)
	112	**27**	**139**

12 CASH AND CASH EQUIVALENTS

	December 31, 2020	December 31, 2019
Cash on hand	3	3
Correspondent accounts with other banks		
- rated from BB- to BB+	30	44
- not rated	416	413
Total correspondent accounts with other banks	**446**	**457**
Total cash and cash equivalents	**449**	**460**

Ratings are based on Fitch Rating system. As at December 31, 2020 and 2019, all balances included in cash and cash equivalents are classified as Stage 1 and no allowance for expected credit loss is recognized.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

13 LOANS TO CUSTOMERS

	December 31, 2020	% of total gross loans	December 31, 2019	% of total gross loans
Business loans	6,625	39%	8,724	45%
Consumer loans	10,310	61%	10,831	55%
Total loans to customers	**16,935**		**19,555**	
Less: Allowance for expected credit loss	(5,886)	35%	(7,058)	36%
Net loans to customers	**11,049**		**12,497**	

The following table shows loan balances per each industry group of the customers as at December 31, 2020 and 2019:

	December 31, 2020	% of total gross loans	December 31, 2019	% of total gross loans
Consumer	7,833	46%	7,359	38%
Trade and services	6,374	38%	7,517	38%
Mortgage	2,478	15%	3,472	18%
Agriculture	104	1%	142	1%
Other	146	1%	1,065	5%
Total loans to customers	**16,935**		**19,555**	
Less: Allowance for expected credit loss	(5,886)		(7,058)	
Net loans to customers	**11,049**		**12,497**	

Loss allowance

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

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost				
Balance at 1 January	**75**	**34**	**6,949**	**7,058**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	(11)	11	-	**-**
Transfer to Stage 3	(52)	(84)	136	**-**
Net remeasurement of loss allowance	16	66	(1,245)	**(1,163)**
New financial assets originated or purchased	191	21	35	**247**
Write-offs	-	-	(376)	**(376)**
Recoveries of amounts previously written off	-	-	-	**-**
Unwinding of discount on present value of ECLs	-	-	120	**120**
Balance at 31 December	**219**	**48**	**5,619**	**5,886**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost				
Balance at 1 January	**78**	**108**	**6,933**	**7,119**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	(2)	9	(7)	**-**
Transfer to Stage 3	(61)	(177)	238	**-**
Net remeasurement of loss allowance	(4)	92	(824)	**(736)**
New financial assets originated or purchased	64	2	-	**66**
Write-offs	-	-	(22)	**(22)**
Recoveries of amounts previously written off	-	-	377	**377**
Unwinding of discount on present value of ECLs	-	-	254	**254**
Balance at 31 December	**75**	**34**	**6,949**	**7,058**

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost-business loans				
Balance at 1 January	**10**	**7**	**4,482**	**4,499**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	(5)	(53)	58	**-**
Net remeasurement of loss allowance	2	50	(374)	**(322)**
New financial assets originated or purchased	4	1	2	**7**
Write-offs	-	-	(356)	**(356)**
Recoveries of amounts previously written off	-	-	-	**-**
Unwinding of discount on present value of ECLs	-	-	58	**58**
Balance at 31 December	**11**	**5**	**3,870**	**3,886**

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost-business loans				
Balance at 1 January	**24**	**27**	**4,728**	**4,779**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	(41)	(1)	42	**-**
Net remeasurement of loss allowance	18	(20)	(726)	**(728)**
New financial assets originated or purchased	9	1	-	**10**
Write-offs	-	-	-	**-**
Recoveries of amounts previously written off	-	-	277	**277**
Unwinding of discount on present value of ECLs	-	-	161	**161**
Balance at 31 December	**10**	**7**	**4,482**	**4,499**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost-consumer loans				
Balance at 1 January	**65**	**27**	**2,467**	**2,559**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	(11)	11	-	**-**
Transfer to Stage 3	(47)	(31)	78	**-**
Net remeasurement of loss allowance	14	16	(871)	**(841)**
New financial assets originated or purchased	187	20	33	**240**
Write-offs	-	-	(20)	**(20)**
Recoveries of amounts previously written off	-	-	-	**-**
Unwinding of discount on present value of ECLs	-	-	62	**62**
Balance at 31 December	**208**	**43**	**1,749**	**2,000**

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost-consumer loans				
Balance at 1 January	**54**	**81**	**2,205**	**2,340**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	(2)	9	(7)	**-**
Transfer to Stage 3	(20)	(176)	196	**-**
Net remeasurement of loss allowance	(22)	112	(98)	**(8)**
New financial assets originated or purchased	55	1	-	**56**
Write-offs	-	-	(22)	**(22)**
Recoveries of amounts previously written off	-	-	100	**100**
Unwinding of discount on present value of ECLs	-	-	93	**93**
Balance at 31 December	**65**	**27**	**2,467**	**2,559**

Loans that are written off during 2020 and 2019 could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

As at December 31, 2020 and 2019 included in accrued interest receivable on loans to customers amounted to AZN 1,380 thousand and AZN 1,738 thousand, respectively.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at December 31, 2020 and 2019.

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost				
Not overdue	7,267	867	354	**8,488**
Overdue less than 30 days	124	92	189	**405**
Overdue 30-89 days	-	47	236	**283**
Overdue 90-179 days	-	-	145	**145**
Overdue 180-360 days	-	-	285	**285**
Overdue more than 360 days	-	-	7,329	**7,329**
Total loans to customers	**7,391**	**1,006**	**8,538**	**16,935**
Less: Allowance for expected credit loss	(219)	(48)	(5,619)	(5,886)
Carrying amount	**7,172**	**958**	**2,919**	**11,049**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost				
Not overdue	8,264	979	813	**10,056**
Overdue less than 30 days	166	195	95	**456**
Overdue 30-89 days	-	20	58	**78**
Overdue 90-179 days	-	-	152	**152**
Overdue 180-360 days	-	-	320	**320**
Overdue more than 360 days	-	-	8,493	**8,493**
Total loans to customers	**8,430**	**1,194**	**9,931**	**19,555**
Less: Allowance for expected credit loss	(75)	(34)	(6,949)	(7,058)
Carrying amount	**8,355**	**1,160**	**2,982**	**12,497**

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – business loans				
Not overdue	324	211	147	682
Overdue less than 30 days	13	41	149	**203**
Overdue 30-89 days	-	-	118	**118**
Overdue 90-179 days	-	-	32	**32**
Overdue 180-360 days	-	-	142	**142**
Overdue more than 360 days	-	-	5,448	**5,448**
Total loans to customers	**337**	**252**	**6,036**	**6,625**
Less: Allowance for expected credit loss	(11)	(5)	(3,870)	(3,886)
Carrying amount	**326**	**247**	**2,166**	**2,739**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – business loans				
Not overdue	1,598	369	373	2,340
Overdue less than 30 days	61	31	24	**116**
Overdue 30-89 days	-	8	58	**66**
Overdue 90-179 days	-	-	38	**38**
Overdue 180-360 days	-	-	85	**85**
Overdue more than 360 days	-	-	6,079	**6,079**
Total loans to customers	**1,659**	**408**	**6,657**	**8,724**
Less: Allowance for expected credit loss	(10)	(7)	(4,482)	(4,499)
Carrying amount	**1,649**	**401**	**2,175**	**4,225**

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – consumer loans				
Not overdue	6,943	656	207	7,806
Overdue less than 30 days	111	51	40	**202**
Overdue 30-89 days	-	47	118	**165**
Overdue 90-179 days	-	-	113	**113**
Overdue 180-360 days	-	-	142	**142**
Overdue more than 360 days	-	-	1,882	**1,882**
Total loans to customers	**7,054**	**754**	**2,502**	**10,310**
Less: Allowance for expected credit loss	(208)	(43)	(1,749)	(2,000)
Carrying amount	**6,846**	**711**	**753**	**8,310**

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – consumer loans				
Not overdue	**6,667**	**611**	**441**	**7,719**
Overdue less than 30 days	104	164	70	**338**
Overdue 30-89 days	-	11	-	**11**
Overdue 90-179 days	-	-	114	**114**
Overdue 180-360 days	-	-	234	**234**
Overdue more than 360 days	-	-	2,415	**2,415**
Total loans to customers	**6,771**	**786**	**3,274**	**10,831**
Less: Allowance for expected credit loss	(65)	(27)	(2,467)	(2,559)
Carrying amount	**6,706**	**759**	**807**	**8,272**

Collateral held and other credit enhancements

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at December 31, 2020. The fair value of collaterals are updated as at the reporting date.

For each loan, the fair value of disclosed collateral is capped to the carrying amount of the loan it is held against.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

				Fair value of collateral held		
	Gross carrying amount	**Allowance for expected credit loss**	**Carrying amount**	**Motor vehicles**	**Real estate**	**Total**
Loans to individuals						
Business loans	6,036	(3,870)	2,166	-	3,167	3,167
Consumer loans	2,502	(1,749)	753	6	952	958
Total credit-impaired loans to customers	**8,538**	**(5,619)**	**2,919**	**6**	**4,119**	**4,125**

Credit-impaired loans to customers in the total carrying amount of AZN 2,920 thousand were over-collateralized by AZN 1,205 thousand.

The following table provides information on collateral securing loans to customers, net of impairment, by types of collateral as at December 31, 2020:

				Fair value of collateral held		
	Gross carrying amount	**Allowance for expected credit loss**	**Carrying amount**	**Motor vehicles**	**Real estate**	**Total**
Loans to individuals						
Business loans	6,625	(3,886)	2,739	-	3,789	3,789
Consumer loans	10,310	(2,000)	8,310	7	2,612	2,619
Total loans to customers	**16,935**	**(5,886)**	**11,049**	**7**	**6,401**	**6,408**

Total loans to customers in the total carrying amount of AZN 11,049 thousand were under-collateralized by AZN 4,641 thousand.

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at December 31, 2019. The fair value of collaterals are updated as at the reporting date.

				Fair value of collateral held		
	Gross carrying amount	**Allowance for expected credit loss**	**Carrying amount**	**Motor vehicles**	**Real estate**	**Total**
Loans to individuals						
Business loans	6,657	(4,482)	2,175	-	3,162	3,162
Consumer loans	3,274	(2,467)	807	13	876	889
Total credit-impaired loans to customers	**9,931**	**(6,949)**	**2,982**	**13**	**4,038**	**4,051**

Credit-impaired loans to customers in the total carrying amount of AZN 2,982 thousand were over-collateralized by AZN 1,069 thousand.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The following table provides information on total amount of loans to customers, net of impairment, by types of collateral as at December 31, 2019:

				Fair value of collateral held		
	Gross carrying amount	**Allowance for expected credit loss**	**Carrying amount**	**Motor vehicles**	**Real estate**	**Total**
Loans to individuals						
Business loans	8,724	(4,499)	4,225	7	4,030	4,037
Consumer loans	10,831	(2,559)	8,272	13	2,754	2,767
Total loans to customers	**19,555**	**(7,058)**	**12,497**	**20**	**6,784**	**6,804**

Total loans to customers in the total carrying amount of AZN 12,497 thousand were under-collateralized by AZN 5,693 thousand.

Significant credit exposures

As at December 31, 2020 and 2019 the Company has no borrowers or companies of connected borrowers, whose loan balances exceed 10% of equity.

Loan maturities

The maturity of the loan portfolio is presented in Note 23, which shows the remaining period from the reporting date to the contractual maturity of the loans.

14 FINANCE LEASES

The following table provides an analysis of finance lease receivables for leases of vehicle and equipment in which the Company is the lessor.

Gross investment in finance lease, receivable	**December 31, 2020**	**December 31, 2019**
Less than one year	391	495
Between one and five years	100	407
	491	**902**
Unearned finance income	(86)	(216)
Net investment in finance lease	**405**	**686**
Less: Allowance for expected credit loss	(75)	(26)
	330	**660**
Net investment in finance lease, receivable		
Less than one year	332	388
Between one and five years	73	298
	405	**686**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The Company treats finance lease as a business loan in ECL measurement. As at December 31, 2020 and 2019 total of AZN 75 thousand and AZN 26 thousand allowance for expected credit loss is recognized, respectively.

As at December 31, 2020 and 2019 included in accrued interest receivable on finance leases amounted to AZN 11 thousand and AZN 7 thousand, respectively.

15 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Right-of-use assets (buildings)	Leasehold improvement	Office and computer equipment	Furniture	Vehicles	Computer software and licenses	Total
Cost							
Balance at January 1,2020	**1,501**	**616**	**456**	**145**	**40**	**213**	**2,971**
Effect of modification	(18)	-	-	-	-	-	(18)
Additions	-	-	18	-	-	1	19
Derecognition/disposals	(1,079)	(130)	(57)	(13)	-	-	(1,279)
Balance at December 31, 2020	**404**	**486**	**417**	**132**	**40**	**214**	**1,693**
Depreciation and amortisation							
Balance at January 1, 2020	**(196)**	**(461)**	**(313)**	**(101)**	**(32)**	**(173)**	**(1,276)**
Depreciation and amortisation for the year	(272)	(85)	(44)	(9)	(2)	(26)	(438)
Eliminated on disposals	286	88	56	11	-	-	441
Balance at December 31, 2020	**(182)**	**(458)**	**(301)**	**(99)**	**(34)**	**(199)**	**(1,273)**
Carrying amount							
At December 31, 2020	**222**	**28**	**116**	**33**	**6**	**15**	**420**

As at December 31, 2020 included in the closing balance of premises and equipment were fully depreciated assets still in use with the total initial cost of AZN 732 thousand (December 31, 2019: AZN 726 thousand).

As at December 31, 2020 and 2019, no property and equipment were pledged as collateral for borrowings.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Right-of-use assets (buildings)	Leasehold improvement	Office and computer equipment	Furniture	Vehicles	Computer software and licenses	Total
Cost							
Balance at January 1, 2019	**158**	**446**	**345**	**127**	**47**	**212**	**1,335**
Additions	1,343	170	121	25	-	1	1,660
Disposals	-	-	(10)	(7)	(7)	-	(24)
Balance at December 31, 2019	**1,501**	**616**	**456**	**145**	**40**	**213**	**2,971**
Depreciation and amortisation							
Balance at January 1, 2019	-	(446)	(280)	(94)	(30)	(142)	(992)
Depreciation and amortisation for the year	(196)	(15)	(40)	(11)	(4)	(31)	(297)
Eliminated on disposals	-	-	7	4	2	-	13
Balance at December 31, 2019	**(196)**	**(461)**	**(313)**	**(101)**	**(32)**	**(173)**	**(1,276)**
Carrying amount							
At December 31, 2019	**1,305**	**155**	**143**	**44**	**8**	**40**	**1,695**

16 ASSETS HELD FOR SALE

During the years ended December 31, 2020 and 2019 the Company received non-financial assets held for sale at fair value by taking possession of collateral held as security against loans to customers. As at December 31, 2020 and 2019 such assets amounted to AZN 217 thousand and AZN 303 thousand, respectively, net of change in fair value less costs to sell. Initially, it was intended that these assets would be recovered principally through a sale transaction within one year from the date of classification. However, during the years ended December 31, 2020 and 2019, the market conditions that existed at the date the assets were classified initially as held for sale significantly deteriorated and as a result, the assets could not be sold within one year period. The Company continues to actively market the assets held for sale at a price that is reasonable given the change in market conditions. As at December 31, 2020 and 2019 all of the assets held for sale were real estate properties.

	December 31, 2020	December 31, 2019
Repossessed collaterals	764	702
Cumulative change in fair value less costs to sell	(547)	(399)
Balance at the end of the year	**217**	**303**

The Company recognized fair value loss on assets held for sale in the amount of AZN 148 thousand during the year ended December 31, 2020 (2019: AZN 61 thousand).

17 OTHER FINANCIAL ASSETS

	December 31, 2020	December 31, 2019
Receivables from intermediaries	130	202
Less: Allowance for expected credit loss	(54)	(54)
Total other financial assets	**76**	**148**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

An analysis of changes in ECL allowance on other financial assets during the year ended December 31, 2020 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2020	-	-	(54)	(54)
Net change in ECL value	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
As at December 31, 2020	**-**	**-**	**(54)**	**(54)**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2019	-	-	-	-
Net change in ECL value	-	-	(54)	(54)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
As at December 31, 2019	**-**	**-**	**(54)**	**(54)**

As at December 31, 2020, all balances included in other financial assets are classified as Stage 1 and no loss allowance is recognized due to insignificancy of the amount.

18 DUE TO BANKS

	December 31, 2020	December 31, 2019
Loans from "Yelo Bank" OJSC	2,648	3,666
Other payables to "Yelo Bank" OJSC	1,083	2,916
Loans from "Pasha Bank" OJSC	-	293
Total due to banks	**3,731**	**6,875**

The principal balance due to "Yelo Bank" OJSC was AZN 2,643 thousand (2019: AZN 3,659 thousand) and the balance of accrued interest was AZN 5 thousand (2019: AZN 7 thousand). These loans consist of AZN 2,300 thousand obtained in December 2019 with an annual interest rate of 13% which matures in December 2021 and AZN 349 thousand (USD 202 thousand) obtained in September 2018 with an annual interest rate of 6% which matures in September 2021. During 2020 interest rates for these loans were decreased to 11% and 5%, respectively.

Other payables to "Yelo Bank" OJSC include payable for transferred loans to customers.

As at December 31, 2020 and 2019 included in accrued interest payable on due to banks amounted to AZN 5 thousand and AZN 8 thousand, respectively.

The Company is not subject to any covenants related to these borrowings.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Movements in due to banks balances for the year ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Balance at the beginning of the year	**6,875**	**8,468**
Proceeds	-	2,300
Repayment	(3,138)	(3,820)
Total changes from financing cash flows	**3,737**	**6,948**
Interest expense	315	371
Interest paid	(321)	(444)
Balance at the end of the year	**3,731**	**6,875**

19 TERM BORROWINGS

	December 31, 2020	December 31, 2019
Funds borrowed from the CBAR	594	-
Total term borrowings	**594**	-

The Central Bank of the Republic of Azerbaijan

During the year ended December 31, 2020, the Company received borrowings from the CBAR in the amount of AZN 728 thousand with an annual interest rate of 0.1% per annum for 5 years under the Decree. The interest rate of borrowings received from the CBAR for the purpose of financing the restructured loans was below market rate as at the date of origination, therefore the Company recognized gain in the amount of AZN 162 thousand during the year ended December 31, 2020 at initial recognition of these borrowings.

In accordance with the agreement signed between the Company and the Ministry of Finance of Azerbaijan who acts as a guarantor on behalf of the Republic of Azerbaijan, the Company paid a guarantee fee in the amount of 0.5% of received borrowings from CBAR.

Movements in term borrowings balances for the year ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Balance at the beginning of the year	-	**3,493**
Proceeds	728	-
Repayment	-	(3,400)
Total changes from financing cash flows	**728**	**93**
Interest expense	28	51
Net fair value gain on initial recognition of financial instruments	(162)	-
Interest paid	-	(144)
Balance at the end of the year	**594**	-

As at December 31, 2020 and 2019 included in accrued interest payable on term borrowings amounted to AZN 27 and AZN nil, respectively.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

20 LEASE LIABILITY

	December 31, 2020	December 31, 2019
Lease liabilities (current)	101	267
Lease liabilities (non-current)	147	1,086
Total lease liabilities	**248**	**1,353**

Future minimum lease payments as at December 31, 2020 were as follows:

	Minimum lease payments due		
	Within one year	**One to five years**	**Total**
Lease payments	127	171	298
Finance charges	(26)	(24)	(50)
Net present value as at December 31, 2020	**101**	**147**	**248**

Future minimum lease payments as at December 31, 2019 were as follows:

	Minimum lease payments due		
	Within one year	**One to five years**	**Total**
Lease payments	427	1,344	1,771
Finance charges	(160)	(258)	(418)
Net present value as at December 31, 2019	**267**	**1,086**	**1,353**

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

	December 31, 2020	December 31, 2019
Balance at the beginning of the year	**1,353**	**158**
Cash flows		
Repayment of principal portion of lease liability	(165)	(148)
Repayment of Interest portion of lease liability	(136)	(107)
Non-cash changes		
Interest expense	136	107
Derecognition	(857)	-
Modification	(18)	-
Rent concessions	(65)	-
New lease liabilities	-	1,343
Balance at the end of the year	**248**	**1,353**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

21 OTHER LIABILITIES

	December 31, 2020	December 31, 2019
Payables to employees	181	128
Taxes payable other than income tax	8	-
Accruals	5	-
Total other liabilities	**194**	**128**

22 CHARTER CAPITAL

Charter capital represents contributions made by participants of the Company. The participants of the Company are entitled to vote at annual and general meetings of the Company's participants proportionately to their contributions.

The outstanding charter capital as at December 31, 2020 and 2019 comprises AZN 8,453 thousand. As at December 31, 2020 the Company is 100% owned by "TBC Bank" JSC.

23 RISK MANAGEMENT, CORPORATE GOVERNANCE AND INTERNAL CONTROL

Corporate governance framework

The Company is established as a limited liability company in accordance with Azerbaijani law. The supreme governing body of the Company is the General Shareholders' meeting that is called for annual or extraordinary meetings. The General Shareholders' meeting makes strategic decisions on the Company's operations.

The General Shareholders' meeting elects the Board of Directors. The Board of Directors is responsible for overall governance of the Company's activities.

Azerbaijani legislation and the Charter of the Company establishes lists of decisions that are approved by the Board of Directors and that are approved by Director.

General activities of the Company are managed by the sole executive body of the Company (the General Director) Spartak Tetrashvili. The General Director of the Company is responsible for implementation of decisions of the Board of Directors. The General Director of the Company reports to the Board of Directors of the Company.

Internal control policies and procedures

The General Director has responsibility for the development, implementation and maintaining of internal controls in the Company that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;

- reliability of IT-systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

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

The main functions of internal audit service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfilment of the decisions of key management structures;
- audit of efficiency of methodology of assessment of the risks and risk management procedures, regulated by internal documents in the Company (methods, programmes, rules and procedures);
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information;
- audit of applicable methods of safekeeping the Company's property assessment of economic reasonability and efficiency of operations and other deals;
- audit of internal control processes and procedures.

The Internal Audit function is independent from management and reports directly to the Supervisory Board. The results of Internal Audit reviews are discussed with relevant business process managers, with summaries submitted to the management of the Company.

The internal control system in the Company comprises:

- the General Director and Board of Directors;
- the Chief Accountant;
- the security function, including IT-security;
- the human resource function;
- the internal audit service;
- the Controlling department.

Other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:

- heads of branches and heads of business-units;
- the legal officer – an employee responsible for compliance with the legal and regulatory requirements;
- other employees/divisions with control responsibilities.

Management believes that the Company complies with the CBAR requirements related to risk management and internal control systems, including requirements related to the internal audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management policies and procedures

The Company has risk management department which aims to identify, analyse and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits.

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

The General Director is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Company operates within established risk parameters. He also has responsibility for controlling the Company’s compliance with risk limits as established by the CBAR. With the view of controlling effectiveness of the Company’s risk management procedures and their consistent application the General Director of the Company periodically receive reports prepared by the internal audit function, discuss the contents of these reports and consider proposed corrective actions.

Credit risk – Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3.

Significant increase in credit risk

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

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

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

The Company uses the following criteria for determining whether there has been a significant increase in credit risk:

- Loan exposure past due more than 30 days;
- The contract was restructured under circumstances other than described in credit impaired financial assets definition;
- Restrictions on the use of Company’s account balances or late payments on deposits due to the inability of a bank to fulfill the contractual obligations in respect of cash flows within 1 day and more.

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

Overdue days are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

Generating the term structure of PD

The probability of default (PD,%) for the loans of the Company is calculated using the Markov chains method, namely, stochastic loan transition matrices over the intervals of overdue periods during a given analysed period.

The Company collects performance and default information about its credit risk by type of product. In order to estimate PD, the Company uses historical data horizon starting from July 2016.

For the calculation of PD, all microloans that are available at the beginning of the analyzed period (the year preceding the date of calculating the reservation rates) are ranked by allocated overdue intervals:

- "without overdue days";
- "1-30 overdue days";
- "31-60 overdue days ";
- "61-90 overdue days ";
- "Default".

Average migration matrix between the risk groups is derived from historical migration data.

As required by IFRS 9, the Company incorporates forward looking information in the measurement of ECL. PD parameter is adjusted to account for future developments in macroeconomic factors.

Definition of default

For details on criteria for credit-impaired assets please refer to Note 3.

Incorporating of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Company uses expert judgment in assessment of forward-looking information. This assessment is based also on external information.

According to one of IFRS 9 main requirements forward-looking view must be included for the adjustments of PD lifetime dependence and regression models that explain behaviour of historical defaults rates with selected macroeconomic variables should be used to adjust PD curves to make it more point-in-time.

The Company has identified and documented key drivers of credit risk and credit losses, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses.

Macroeconomic indicators were selected based on scientific studies of the probability of defaults in developing and developed countries. The most significant macroeconomic indicators are real oil prices and average monthly salary. These indicators should show the greatest impact on the creditworthiness of the Company's borrowers, since borrowers of the Company represent a class of the population with incomes on low level or below middle level.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities, such as the Central Bank of Azerbaijan Republic. The Company analysed 3 years historical macroeconomic data.

The key drivers depend on portfolio segment. The economic scenarios used as at December 31, 2020 included the following key indicators for the Republic of Azerbaijan for the years ending December 31, 2020 through 2023.

Key driver	2020	2021	2022	2023
Real GDP Growth	(4.3%)	2,0%	1.6%	1.7%
Nominal GDP (in thousands AZN)	70,949	76,534	80,444	84,490

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 3.

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

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

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

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

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

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

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

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

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

The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period.

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

	Exposure as at December 31, 2020	External Benchmarks used PD	LGD
Cash and cash equivalents	446	Moody's default study	100%

Market risk

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

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

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

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
December 31, 2020							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	449	449
Loans to customers	609	825	3,192	4,504	1,919	-	11,049
Finance lease	41	47	183	59	-	-	330
Other financial assets	-	-	-	-	-	76	76
Total financial assets	**650**	**872**	**3,375**	**4,563**	**1,919**	**525**	**11,904**
LIABILITIES							
Due to banks	5	-	3,726	-	-	-	3,731
Term borrowings	-	-	-	594	-	-	594
Lease liability	8	16	77	147	-	-	248
Other financial liabilities	-	-	-	-	-	103	103
Total financial liabilities	**13**	**16**	**3,803**	**741**	-	103	**4,676**
Net liquidity gap	**637**	**856**	**(428)**	**3,822**	**1,919**	**422**	**7,228**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
December 31, 2019							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	460	460
Loans to customers	739	1,035	3,973	4,963	1,787	-	12,497
Finance lease	42	63	266	289	-	-	660
Other financial assets	-	-	-	-	-	148	148
Total financial assets	**781**	**1,098**	**4,239**	**5,252**	**1,787**	**608**	**13,765**
LIABILITIES							
Due to banks	8	-	3,208	3,659	-	-	6,875
Lease liability	21	43	203	1,086	-	-	1,353
Other financial liabilities	-	-	-	-	-	121	121
Total financial liabilities	**29**	**43**	**3,411**	**4,745**	**-**	**121**	**8,349**
Net liquidity gap	**752**	**1,055**	**828**	**507**	**1,787**	**487**	**5,416**

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at December 31, 2020 and 2019. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2020 Average effective interest rate, %		2019 Average effective interest rate, %	
	AZN	**USD**	**AZN**	**USD**
Interest bearing assets				
Loans to customers	20.42%	17.19%	20.38%	17.21%
Finance lease	28.22%	-	28.11%	-
Interest bearing liabilities				
Due to banks	11%	5%	13%	6%
Term borrowings	7.25%	-	-	-
Lease liability	13%	-	13%	-

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at December 31, 2020 and 2019, is as follows:

	2020	**2019**
100 bp parallel rise	68	49
100 bp parallel fall	(68)	(49)

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Currency risk

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

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The following table shows the currency structure of financial assets and liabilities as at December 31, 2020:

	AZN	USD	EUR	Total
ASSETS				
Cash and cash equivalents	373	61	15	449
Loans and advances to customers	8,035	3,014	-	11,049
Finance lease	330	-	-	330
Other financial assets	76	-	-	76
Total assets	**8,814**	**3,075**	**15**	**11,904**
LIABILITIES				
Due to banks	3,385	346	-	3,731
Term borrowings	594	-	-	594
Lease liability	248	-	-	248
Other financial liabilities	103	-	-	103
Total liabilities	**4,330**	**346**	**-**	**4,676**
Net position	**4,484**	**2,729**	**15**	**7,228**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2019:

	AZN	USD	Total
ASSETS			
Cash and cash equivalents	348	112	460
Loans and advances to customers	9,014	3,483	12,497
Finance lease	660	-	660
Other financial assets	148	-	148
Total assets	**10,170**	**3,595**	**13,765**
LIABILITIES			
Due to banks	5,512	1,363	6,875
Lease liability	1,353	-	1,353
Other financial liabilities	121	-	121
Total liabilities	**6,986**	**1,363**	**8,349**
Net position	**3,184**	**2,232**	**5,416**

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

A weakening of the AZN, as indicated below, against the following currencies at December 31, 2020 and 2019, would decrease equity and profit or loss by the amounts shown below. This analysis is on a gross-of-tax basis, and is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	December 31, 2020	December 31, 2019
20% appreciation of USD against AZN	546	446

A strengthening of the AZN against the above currencies at December 31, 2020 and 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

Credit risk

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

The credit policy establishes:

- procedures for reviewing and approving loan credit applications;
- methodology for the credit assessment of borrowers;
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

The Company continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Company.

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

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

	December 31, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents (excluding cash on hand)	446	457
Loans and advances to customers	11,049	12,497
Finance lease	330	660
Other financial assets	76	148
Total maximum exposure	**11,901**	**13,762**

For the analysis of credit risk in respect of loans to customers refer to Note 13.

Liquidity risk

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

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

The Company seeks to actively support a diversified and stable funding base.

The liquidity management policy requires:

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

The Finance Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Finance Department then provides for an adequate portfolio of short-term liquid assets to be maintained, to ensure that sufficient liquidity is maintained within the Company as a whole.

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

The following tables show the undiscounted cash flows on financial assets, liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liabilities.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The undiscounted maturity analysis for financial assets and liabilities as at December 31, 2020 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative assets							
Cash and cash equivalents	449	-	-	-	-	449	449
Loans to customers	698	999	3,940	5,989	1,959	13,585	11,049
Finance lease	56	68	267	75	-	466	330
Other financial assets	76	-	-	-	-	76	76
Total non-derivative assets	**1,279**	**1,067**	**4,207**	**6,064**	**1,959**	**14,576**	**11,904**
Due to banks	28	42	554	2,376	-	3,000	3,731
Term borrowings	-	-		731	-	731	594
Lease liability	11	21	95	171	-	298	248
Other financial liabilities	103	-	-	-	-	103	103
Total non-derivative financial liabilities	**142**	**63**	**649**	**3,278**	**-**	**4,132**	**4,676**

The undiscounted maturity analysis for financial assets and liabilities as at December 31, 2019 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative assets							
Cash and cash equivalents	460	-	-	-	-	460	460
Loans to customers	845	1,239	4,851	6,549	1,912	15,396	12,497
Finance lease	53	84	358	407	-	902	660
Other financial assets	148	-	-	-	-	148	148
Total non-derivative assets	**1,506**	**1,323**	**5,209**	**6,956**	**1,912**	**16,906**	**13,765**
Due to banks	109	199	3,215	2,465	1,359	7,347	6,875
Lease liability	36	72	319	1,344	-	1,771	1,353
Other financial liabilities	121	-	-	-	-	121	121
Total non-derivative financial liabilities	**266**	**271**	**3,534**	**3,809**	**1,359**	**9,239**	**8,349**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at December 31, 2020:

	Demand and less than 1 month	From 1 to 3 months	From 3 to12 months	From 1 to 5 years	More than 5 years	Overdue (expired)	Total
Non-derivative assets							
Cash and cash equivalents	449	-	-	-	-	-	449
Loans and advances to customers	609	825	3,192	4,504	80	1,839	11,049
Finance lease	41	47	183	59	-	-	330
Other financial assets	76	-	-	-	-	-	76
Total assets	**1,175**	**872**	**3,375**	**4,563**	**80**	**1,839**	**11,904**
Non-derivative liabilities							
Due to banks	5	-	3,726	-	-	-	3,731
Term borrowings	-	-	-	594	-	-	594
Lease liability	8	16	77	147	-	-	248
Other financial liabilities	103	-	-	-	-	-	103
Total financial liabilities	116	16	3,803	741	-	-	4,676
Net position	**1,059**	**856**	**(428)**	**3,822**	**80**	**1,839**	**7,228**
Cumulative net position	**1,059**	**1,915**	**1,487**	**5,309**	**5,389**	**7,228**	

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at December 31, 2019:

	Demand and less than 1 month	From 1 to 3 months	From 3 to12 months	From 1 to 5 years	More than 5 years	Overdue (expired)	Total
Non-derivative assets							
Cash and cash equivalents	460	-	-	-	-	-	460
Loans and advances to customers	739	1,035	3,973	4,963	206	1,581	12,497
Finance lease	42	63	266	289	-	-	660
Other financial assets	148	-	-	-	-	-	148
Total assets	**1,389**	**1,098**	**4,239**	**5,252**	**206**	**1,581**	**13,765**
Non-derivative liabilities							
Due to banks	8	-	3,208	3,659	-	-	6,875
Lease liability	21	43	203	1,086	-	-	1,353
Other financial liabilities	121	-	-	-	-	-	121
Total financial liabilities	150	43	3,411	4,745	-	-	8,349
Net position	**1,239**	**1,055**	**828**	**507**	**206**	**1,581**	**5,416**
Cumulative net position	**1,239**	**2,294**	**3,122**	**3,629**	**3,835**	**5,416**	

24 CAPITAL MANAGEMENT

The CBAR sets and monitors capital requirements for the Company. The Company defines as capital those items defined by statutory regulation as capital for credit organizations. Under the current capital requirements set by the CBAR, non-bank credit organizations have to hold a minimum level of charter capital of AZN 300 thousand (2019: AZN 300 thousand).

There is no requirement set by the CBAR to non-bank credit organization regarding the maintenance of a ratio of total regulatory capital to risk weighted assets (statutory capital ratio).

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Company's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of Company's revenues and profit, and long-term investment plans mainly financed by the Company's operating cash flows. With these measures the Company aims for steady profits growth.

25 CONTINGENCIES

Insurance

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

Litigation

In the ordinary course of business, the 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.

Taxation contingencies

The taxation system in the Republic of Azerbaijan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges.

A tax year generally remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

(in thousands of Azerbaijani Manats, unless otherwise indicated)

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

26 RELATED PARTY TRANSACTIONS

Remuneration of key management personnel

Total remuneration included in personnel expenses for the years ended December 31, 2020 and 2019 is as follows:

	December 31, 2020	December 31, 2019
Short-term employee benefits	385	366
	385	**366**

The Company does not provide post-employment, termination and other long-term benefits to management.

Transactions with other related parties

The outstanding balances and average effective interest rates as at December 31, 2020 for transactions with key management personnel, parent company and entities under common control of the same parent are as follows:

Statement of financial position	Key management personnel	Average effective interest rate, %	Entities under common control	Average effective interest rate, %	Parent company	Average effective interest rate, %
Cash and cash equivalents	-	-	-	-	2	-

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The outstanding balances and average effective interest rates as at December 31, 2019 for transactions with key management personnel, parent company and entities under common control of the same parent are as follows:

Statement of financial position	Key management personnel	Average effective interest rate, %	Entities under common control	Average effective interest rate, %	Parent company	Average effective interest rate, %
Cash and cash equivalents	-	-	-	-	26	-
Gross amount of loans and advances to customers	29	19% (AZN)	-	-	-	-
Other liabilities	29	-	-	-	-	-

Transactions with key management personnel, parent company and entities under common control of the same parent for the year ended December 31, 2020 amounted to AZN nil.

Amounts included in profit or loss in relation to transactions with key management personnel, parent company and entities under common control of the same parent for the year ended December 31, 2019 are as follows:

Statement of profit or loss	Key management personnel	Entities under common control	Parent company
Interest income	2	-	-
Interest expense	-	-	51

27 FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2020:

	Amortized cost	Total carrying amount	Fair value
Cash and cash equivalents	449	449	449
Loans to customers	11,049	11,049	11,049
Finance lease	330	330	330
Other financial assets	76	76	76
Total financial assets	**11,904**	**11,904**	**11,904**
Due to banks	3,731	3,731	3,731
Term borrowings	594	594	594
Lease liability	248	248	248
Other financial liabilities	103	103	103
Total financial liabilities	**4,676**	**4,676**	**4,676**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2019:

	Amortized cost	Total carrying amount	Fair value
Cash and cash equivalents	460	460	460
Loans to customers	12,497	12,497	12,497
Finance lease	660	660	660
Other financial assets	148	148	148
Total financial assets	**13,765**	**13,765**	**13,765**
Due to banks	6,875	6,875	6,875
Lease liability	1,353	1,353	1,353
Other financial liabilities	121	121	121
Total financial liabilities	**8,349**	**8,349**	**8,349**

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

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

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

Fair value hierarchy

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The table below analyses financial instruments not measured at fair value at December 31, 2020, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

	Level 2	Level 3	Total fair values	Total carrying amount
Cash and cash equivalents (excluding cash on hand)	446	-	**446**	446
Loans and advances to customers	8,130	2,919	**11,049**	11,049
Finance lease	330	-	**330**	330
Other financial assets	76	-	**76**	76
Total financial assets	**8,982**	**2,919**	**11,901**	**11,901**
Due to banks	3,731	-	**3,731**	3,731
Term borrowings	594	-	**594**	594
Lease liability	248	-	**248**	248
Other financial liabilities	103	-	**103**	103
Total financial liabilities	**4,676**	-	**4,676**	**4,676**

The table below analyses financial instruments not measured at fair value at December 31, 2019, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

	Level 2	Level 3	Total fair values	Total carrying amount
Cash and cash equivalents (excluding cash on hand)	457	-	**457**	457
Loans and advances to customers	9,515	2,982	**12,497**	12,497
Finance lease	660	-	**660**	660
Other financial assets	148	-	**148**	148
Total financial assets	**10,780**	**2,982**	**13,762**	**13,762**
Due to banks	6,875	-	**6,875**	6,875
Lease liability	1,353	-	**1,353**	1,353
Other financial liabilities	121	-	**121**	121
Total financial liabilities	**8,349**	-	**8,349**	**8,349**