"FERRUM CAPITAL" CJSC
Financial statements in accordance with
International Financial Reporting Standards

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

Contents

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

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out (on page 1 of report) is made with a view to distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the financial statements of "Ferrum Capital" CJSC (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 result so fits operations, cash flows and changes in equity for the year 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 judgments 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 statement so on 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 incompliance with legislation and accounting standards of the countries where Company's entities operate;
- 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 April 01, 2021 by the Management of the Company.

On behalf of the Management:

Mr. Tural Agayev
Director

Mrs. Leyla Hagverdiyeva
Chief accountant

RSM

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INDEPENDENT AUDITOR`S REPORT

To the Management and the Board of Trustees of "Ferrum Capital" CJSC

Opinion

We have audited the financial statements of "Ferrum Capital" CJSC (the "Company"), which comprise the statement of financial position at year ended December 31, 2020 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards (IFRSs).

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 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 these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company for the year ended December 31, 2019, were audited by another auditor who expressed unmodified opinion on those statements on May 31, 2020.

Responsibilities of Management Board and the Board of Trustees for the Financial Statements

Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as Management Board 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 Board 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 have no realistic alternative but to do so.

The Management Board and Board of Trustees is responsible for overseeing the Company's financial reporting process.

RSM

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 Board'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 the members of the Management Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

April 1, 2021

Baku, Azerbaijan Republic

RSM Azerbaijan

"FERRUM CAPITAL" CJSC
AS AT DECEMBER 31, 2020
STATEMENT OF FINANCIAL POSITION
(Amounts presented are in Azerbaijani manats, unless otherwise stated)

	Note	December 31, 2020	December 31, 2019 (restated*)
Assets			
Cash and cash equivalents	6	776,866	466,356
Loans and advances to customers receivables on factoring operations	7	29,329,026	31,378,559
Amounts due from related party	17	2,152,245	1,508,400
Deferred tax assets	16	1,206,984	965,823
Properties, equipment and intangible assets	8	163,498	53,956
Derivative financial assets	18	256,352	-
Other assets	9	83,048	-
Total assets		**33,968,019**	**34,373,094**
Liabilities			
Term borrowings	10	23,305,618	21,517,369
Debt securities in issue	11	2,515,608	-
Shareholder bonds	11	1,008,973	-
Current profit tax liability		-	606,757
Other liabilities	12	49,983	2,120
Total liabilities		**26,855,600**	**22,126,246**
Equity			
Share capital	13	2,000	1,000
Other capital	16	5,563,454	11,995,412
Retained earnings		1,546,965	250,436
Total equity		**7,112,419**	**12,246,848**
Total liabilities and equity		**33,968,019**	**34,373,094**

*Certain amounts shown here are inconsistent with 2019 financial statements and reflect adjustments see note 25.

Approved for issue and signed on behalf of the Management on April 1, 2021.

Mr. Tural Agayev
Director

Mrs. Leyla Hagverdiyeva
Chief Accountant

"FERRUM CAPITAL" CJSC
FOR THE YEAR ENDED DECEMBER 31, 2020
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(Amounts presented are in Azerbaijani manats, unless otherwise stated)

	Note	Year ended December 31, 2020	Year ended December 31, 2019 (restated*)
Interest income	14	5,937,398	3,317,817
Interest expense	14	(2,228,282)	(1,350,136)
Net margin on interest income		**3,709,116**	**1,967,681**
Credit loss allowance	7	(119,326)	(1,095,928)
Net margin on interest income after credit loss allowance impairment		**3,589,790**	**871,753**
Other income		151,787	22,886
Administrative and other operating expenses	15	(2,132,211)	(881,325)
Loss/(gain) on foreign exchange translation		(28,426)	205
Profit before income tax		**1,580,940**	**13,519**
Income tax (expense)/income	19	(284,411)	131,085
Net profit for the year		**1,296,529**	**144,604**
Total comprehensive income for the year		**1,296,529**	**144,604**

*Certain amounts shown here are inconsistent with 2019 financial statements and reflect adjustments see note 25.

Approved for issue and signed on behalf of the Management on April 1, 2021.

Mr. Tural Agayev
Director

Mrs. Leyla Hagverdiyeva
Chief Accountant

"FERRUM CAPITAL" CJSC
FOR THE YEAR ENDED DECEMBER 31, 2020
STATEMENT OF CHANGES IN EQUITY
(Amounts presented are in Azerbaijani manats, unless otherwise stated)

	Share capital	Other capital	Retained earnings	Total equity
January 1, 2018	**1,000**	**-**	**-**	**1,000**
Net profit for the year	-	-	105,832	105,832
December 31, 2018	**1,000**	**-**	**105,832**	**106,832**
Increase in other capital, net (restated*)	-	11,995,412	-	11,995,412
Net profit for the year (restated*)	-	-	144,604	144,604
December 31, 2019 (restated*)	**1,000**	**11,995,412**	**250,436**	**12,246,848**
Decrease in other capital, net (restated*)	-	(6,431,958)	-	(6,431,958)
Net profit for the year	-	-	1,296,529	1,296,529
Increase in share capital	1,000	-	-	1,000
December 31, 2020	**2,000**	**5,563,454**	**1,546,965**	**7,112,419**

*Certain amounts shown here are inconsistent with 2019 financial statements and reflect adjustments see note 25.

Approved for issue and signed on behalf of the Management on April 1, 2021.

Mr. Tural Agayev
Director

Mrs. Leyla Hagverdiyeva
Chief Accountant

"FERRUM CAPITAL" CJSC
FOR THE YEAR ENDED DECEMBER 31, 2020
STATEMENT OF CASH FLOWS
(Amounts presented are in Azerbaijani manats, unless otherwise stated)

	Year ended December 31, 2020	Year ended December 31, 2019 (restated*)
Cash flows from operating activities		
Profit before income tax	**1,580,191**	**13,519**
Adjustment for:		
Interest income	(5,937,398)	(3,317,817)
Interest expense	2,228,282	1,350,136
Credit loss allowance	119,326	1,095,928
Depreciation and amortization expense	24,233	6,151
Loss/(gain) on foreign exchange translation	28,426	(205)
Net cash used in operating activities before changes in operating assets and liabilities	**(1,956,191)**	**(852,288)**
Loans and advances to customers and receivables on factoring operations	2,052,515	(18,739,185)
Other assets	(4,080)	(195,915)
Other liabilities	47,863	(1,092,755)
Amounts due from related party	(643,845)	(1,508,400)
Net cash used in operating activities before tax and interests	**(503,738)**	**(22,388,543)**
Income tax paid	(1,211,297)	-
Interest paid	(2,135,223)	(1,293,328)
Interest received	5,786,664	3,262,402
Net cash generated from/(used in) operating activities	**1,936,406**	**(20,419,469)**
Cash flows from investing activities		
Acquisition of properties, equipment and intangible assets	(133,775)	(51,987)
Net cash used in investing activities	**(133,775)**	**(51,987)**
Cash flows from financing activities		
Proceeds from term borrowings	33,568,112	24,563,900
Repayment of term borrowings	(31,872,923)	(14,965,709)
Issue of debt securities	2,500,000	-
Issue of shareholder bonds	1,000,000	-
Increase in share capital	1,000	-
(Decrease)/increase in other capital	(6,431,958)	9,392,118
Payment for derivative financial assets	(256,352)	-
Net cash generated from/(used in) financing activities	**(1,492,121)**	**18,990,310**
Net increase/(decrease) in cash and cash equivalents	**310,510**	**(1,481,146)**
Cash and cash equivalents at the beginning of the year	**466,356**	**1,947,502**
Cash and cash equivalents at the end of the year	**776,866**	**466,356**

*Certain amounts shown here are inconsistent with 2019 financial statements and reflect adjustments see note 25

Approved for issue and signed on behalf of the Management on April 1, 2021.

Mr. Tural Agayev
Director

Mrs. Leyla Hagverdiyeva
Chief Accountant

The notes set out on pages 5 to 41 form an integral part of these financial statements.

1. Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended December 31, 2020 for "Ferrum Capital" CJSC ("the Company").

The Company was incorporated and is domiciled in the Republic of Azerbaijan. The Company is an closed joint stock company and was set up in accordance with Azerbaijani regulations.

The shareholders and ultimate controlling parties of the Company are "AQA Group of Companies" CJSC 4,5%, "Vesta Consulting" LLC 4,5%, Mr. Demirchi Qafar Aydin 68% and Mr. Habib Zadeh Mohammad Reza (23%).

Principal activity

The Company's principal business activity is factoring of receivables and lending operations within the Republic of Azerbaijan.

The Company had 114 employees as at December 31, 2020 (as at December 31, 2019: 79 employees).

Registered address and place of business

The Company's registered address is: Khatai district, Khocali 37, AZ1025, Baku, the Republic of Azerbaijan.

The Company's place of business is: The Demirchi Tower, 17th floor, Khocali 37, AZ 1025, Baku, the Republic of Azerbaijan.

Presentation currency

These financial statements are presented in Azerbaijani Manats ("AZN"), unless otherwise stated.

2. Operating environment of the company

The Republic of Azerbaijan

As an oil exporting country the economy of Azerbaijan is heavily dependent on oil being the largest contributor to the state budget both in volume and value terms, therefore the price of oil is of critical importance for the economy and abrupt changes in the price of oil have wide ranging effects on the macro economic factors of the economy like depreciation in currency, slower economic and industrial expansions and instability of monetary ramifications.

The Company's operations are primarily located in Azerbaijan and consequently is exposed to the economic and financial markets of Azerbaijan which display characteristics of an emerging market.

From the mid of June 2014 the oil prices fell instantaneously and this sharp decline resulted in decrease in revenue of oil industry, reduction in fiscal revenues, reduction in production of oil and shutting of their progressive operations.

Continuously low level of the global oil prices as well as the binary devaluation of the Azerbaijani Manat incurred in 2015 have recently increased the level of uncertainty in the business environment.

Since January 12, 2017 Azerbaijan's central bank has dropped the 4% exchange rate corridor it imposed on commercial banks in order to allow the currency to float freely and during 2018 the value of manat began to stabilize.

2. Operating environment of the company (continued)

During 2019, CBAR reviewed the interest corridor eight times. It reduced the discount rate from 9.75 to 7.5%, the upper limit of the interest corridor from 11.75% to 9.25%, and the lower limit from 7.75% to 5.75%. The assets of State Oil Fund of Azerbaijan (SOFAZ) exceeded $40 billion for the first time, which prompted an increase in Azerbaijan's currency reserves to over $50 billion after a four-year pause.

In 2019, there was no change in the minimum wage. According to the relevant Presidential Decree, the insurance part of all types of labor pensions was indexed and increased by 16.6% by January 01, 2020 in accordance with the annual growth rate of the average monthly nominal wage set by the State Statistics Committee for 2019. The increase applied to the pensions of all pensioners receiving pensions on the principle of insurance, ie about 1 million 120 thousand people.

On January 30, 2020, the World Health Organization declared the spread of coronavirus (COVID-19) infection a "state of emergency of international importance in the field of public health." The spread of the coronavirus pandemic to the global economy in the first half of 2020 had a negative impact.

In June and July 2020, many countries began to show signs of declining pandemic prevalence. Authorities gradually began to raise or lower restrictions. This trend has led to a revival in global financial and commodity markets. However, the peak of the pandemic in the countries occurred in June-July 2020, and as a result, restrictive measures were tightened. Social distancing and quarantine measures resulted in the closure of retail, transport, travel, catering, hotel, entertainment and many other businesses. International trade was also significantly reduced. Finally, oil prices tumbled to historic lows but moderately recovered by the end of the period. These measures have led to a gradual reduction in new coronavirus cases, and by August 2020, many governments, including the Government of the Republic of Azerbaijan, began to reduce restrictions. The next restrictions on the pandemic were tightened in December. Instability in financial and commodity markets around the world and the country is growing. Management continues to monitor the possible impact of the current situation on the Company's operations.

3. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these financial statements are set out below:

Financial instruments - key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

3. Significant accounting policies (continued)

Financial instruments - key measurement terms (continued)

A portfolio of other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Company: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities are substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
(iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 21.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortized cost (AC) is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method.

Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

3. Significant accounting policies (continued)

Financial instruments initial recognition

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the timeframe established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories

The Company classifies and measures financial assets at AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model

The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment.

Factors considered by the Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed.

Refer to Note 4 for critical judgements applied by the Company in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Company in performing the SPPI test for its financial assets.

3. Significant accounting policies (continued)

Financial assets –reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Company did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL

The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC. The Company measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions. Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL.

The Company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 20 for a description of how the Company determines when a SICR has occurred. If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Company's definition of credit impaired assets and definition of default is explained in Note 20. The Note provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

Financial assets – derecognition

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial liabilities – measurement categories

Financial liabilities are classified as subsequently measured at AC.

Financial liabilities – derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

3. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Loans and advances to customers

Loans and advances to customers are recorded when the Company advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Company classifies loans and advances to customers at amortised cost.

Impairment allowances are determined based on the forward-looking ECL models. Note 20 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Company in settlement of overdue loans. The assets are initially recognised 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 the 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.

Properties and equipment

Properties are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and day-to day maintenance are expensed when incurred. The cost of replacing major parts or components of properties and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of properties and equipment. If any such indication exists, management 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. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

5. Significant accounting policies (continued)

Depreciation

Depreciation of properties and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

	Useful lives in years
Furniture, fixtures and other	5 years
Computers and communication equipment	5 years

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each period end date.

Intangible assets

All of the Company's intangible assets have definite useful lives and primarily include capitalised computer software.

Acquired computer software licences are capitalised based on the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 to 10 years.

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

i) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e.,the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, 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 and the estimated useful lives of the assets.

If 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.

5. Significant accounting policies (continued)

Leases (continued)

ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less 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 recognised 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 remeasured 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.

iii) Short-term leases and leases of low-value assets

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

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Term borrowings

Borrowed funds include loans from resident and non-resident banks and other financial institutions with fixed maturities and fixed interest rates. Borrowed funds are subsequently carried at amortised cost.

Debt securities in issue

Debt securities in issue include promissory notes and corporate bonds issued by the Company. Debt securities are carried at amortised cost.

3. Significant accounting policies (continued)

Income taxes

Income taxes have been provided for in the financial statements in accordance with Azerbaijani legislation enacted or substantively enacted by the period end date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement, except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits for the current and prior periods. Taxable profits are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions

The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Income and expense recognition

Interest income and expense are recorded in profit or loss for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the Company relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Company to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Company will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

3. Significant accounting policies (continued)

Income and expense recognition (continued)

The Company does not designate loan commitments as financial liabilities at FVTPL. Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fee and commission income

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Company's performance. Such income includes fees and commissions on guarantee letters. Other fee and commission income is recognised at a point in time when the Company satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations.

Foreign currency translation

The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and the Company's presentation currency is the national currency of the Republic of Azerbaijan, Azerbaijani Manats ("AZN").

Monetary assets and liabilities are translated into 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 Company's functional currency at year-end official exchange rates of the CBAR are recognised 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 the fair value of equity securities are recorded as part of the fair value gain or loss.

At December 31, 2020, the rate of exchange used for translating foreign currency balances denominated in United States dollars ("USD") was USD 1 = AZN 1.7000 (2019: USD 1 = AZN 1.7000).

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

3. Significant accounting policies (continued)

Staff costs and related contributions

Wages, salaries, contributions to the Republic of Azerbaijan state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or AC.

Loans and advances to customers

Loans and advances to customers were carried at AC and impairment losses were recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. If the Company determined that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics, and collectively assessed them for impairment.

The primary factors that the Company considered in determining whether a financial asset was impaired were its overdue status and realisability of related collateral, if any. The following other principal criteria were also used to determine whether there was objective evidence that a credit loss has occurred:

- any instalment was overdue and the late payment could not be attributed to a delay caused by the settlement systems;
- the borrower experienced a significant financial difficulty as evidenced by the borrower's financial information that the Company obtained;
- the borrower considered bankruptcy or a financial reorganisation;
- there was an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impacted the borrower; or
- the value of collateral significantly decreased as a result of deteriorating market conditions.

For the purposes of a collective evaluation of credit loss, financial assets were grouped on the basis of similar credit risk characteristics. Those characteristics were relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that were collectively evaluated for credit loss, were estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts would become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience was adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

3. Significant accounting policies (continued)

Loans and advances to customers (continued)

If the terms of an impaired financial asset held at AC were renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment were measured using the original effective interest rate before the modification of terms. The renegotiated asset were then derecognised and a new asset were recognised at its fair value only if the risks and rewards of the asset substantially changed. This were normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the credit loss decreases and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss was reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets were written off against the related credit loss allowance after all the necessary procedures to recover the asset had been completed and the amount of the loss had been determined. Subsequent recoveries of amounts previously written off were credited to credit loss account in profit or loss for the year.

Income and expense recognition

Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Company to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Company will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Company does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

4. Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the amounts recognised 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 recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

ECL measurement

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 20. 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.

Significant increase in credit risk ("SICR")

In order to determine whether there has been a significant increase in credit risk, the Company compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Company considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Company identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 20.

Business model assessment

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Company considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate.

The Company assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Company's control, is not recurring and could not have been anticipated by the Company, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

4. Critical accounting estimates and judgements in applying accounting policies (continued)

Business model assessment (continued)

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI")

Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The Company identified and considered contractual terms that change the timing or amount of contractual cash flows.
The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract.

The asset's principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Company's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

5. Adoption of new or revised standards and interpretations

The accounting policies adopted in the preparation of financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2019. Several other amendments effective since January 01, 2020 were applied but do not have an impact on the financial statements of the Company.

Standards and interpretations had been issued but were not mandatory

The following standards and interpretations had been issued but were not mandatory for annual period of December 31, 2020:

IFRS 17 Insurance Contracts *(Effective date: January 1, 2021 (likely to be extended to January 1, 2022)*
IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

6. Cash and cash equivalents

	December 31, 2020	December 31, 2019
Cash on hand	1	1
Bank balances payable on demand	776,865	468,643
Credit loss allowance	-	(2,288)
Total cash and cash equivalents	**776,866**	**466,356**

7. Loans and advances to customers and receivables on factoring operations

	December 31, 2020	December 31, 2019
Corporate loans	5,771,029	6,056,425
Receivables on factoring operations	24,917,999	26,562,810
Less credit loss allowance	(1,360,002)	(1,240,676)
Total carrying amount of loans and advances to customers and receivables on factoring operations at AC	**29,329,026**	**31,378,559**

Gross carrying amount and credit loss allowance amount for loans and advances to customers and receivables on factoring operations at AC by classes at December 31, 2020 and December 31, 2019 are disclosed in the table below:

	December 31, 2020			December 31, 2019		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Loans to corporate customers						
Corporate loans	5,771,029	(135,418)	5,635,611	6,056,425	(233,803)	5,822,622
Receivables on factoring operations						
Consumer loans	24,917,999	(1,224,584)	23,693,415	26,562,810	(1,006,873)	25,555,937
Total loans and advances to customers and receivables on factoring operations at AC	**30,689,028**	**(1,360,002)**	**29,329,026**	**32,619,235**	**(1,240,676)**	**31,378,559**

7. Loans and advances to customers and receivables on factoring operations (continued)

Movements in the loans credit loss allowance by classes of loans and advances for the year ended December 31, 2020 are as follows:

	Receivables on factoring operations	Corporate loans	Total
Balance at the beginning of the year	**(1,006,873)**	**(233,803)**	**(1,240,676)**
Change in credit loss allowance for the year	(217,711)	98,385	(119,326)
Balance at the end of the year	**(1,224,584)**	**(135,418)**	**(1,360,002)**

Movements in the loans credit loss allowance by classes of loans and advances for the year ended December 31, 2019 are as follows:

	Receivables on factoring operations	Corporate loans	Total
Balance at the beginning of the year	**-**	**(147,036)**	**(147,036)**
Change in credit loss allowance for the year	(1,006,873)	(86,767)	(1,093,640)
Balance at the end of the year	**(1,006,873)**	**(233,803)**	**(1,240,676)**

The following table presents the credit loss allowance distribution based on IFRS 9 as of December 31, 2020:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Not overdue nor impaired	29,222,060	-	-	29,222,060
Overdue, but not impaired	-	869,946	-	869,946
Individually impaired (gross amount)	-	-	597,022	597,022
Less expected credit loss allowance	(328,057)	(434,923)	(597,022)	(1,360,002)
Total	**28,894,003**	**435,023**	**-**	**29,329,026**

The following table presents the credit loss allowance distribution based on IFRS 9 as of December 31, 2019:

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Not overdue nor impaired	30,965,356	-	-	30,965,356
Overdue, but not impaired	-	522,759	-	522,759
Individually impaired (gross amount)	-	-	1,131,120	1,131,120
Less expected credit loss allowance	(402,546)	(59,800)	(778,330)	(1,240,676)
Total	**30,562,810**	**462,959**	**352,790**	**31,378,559**

7. Loans and advances to customers and receivables on factoring operations (continued)

The table below summarizes the quality assurance of loan portfolio at December 31, 2020:

	Gross balance value	Credit loss allowance	Carrying amount
Receivables on factoring operations			
Loans without individual signs of impairment	23,721,867	328,057	23,393,811
Impaired loans or loans with potential impairment indicators:			
- overdue 30-90 days	599,110	299,605	299,505
- overdue 90-180 days	248,934	248,934	-
- overdue 180-360 days	225,219	225,219	-
- overdue than 360 days	122,869	122,869	-
Total impaired receivables or receivables with potential impairment indicators	**1,196,132**	**896,627**	**299,505**
Total receivables on factoring operations	**24,917,999**	**1,224,584**	**23,693,415**
Corporate loans			
Loans without individual signs of impairment	5,500,193	-	5,500,193
Impaired loans or loans with potential impairment indicators:			
- overdue than 90 days	270,836	135,418	135,418
Total impaired loans or loans with potential impairment indicators	**270,836**	**135,418**	**135,418**
Total corporate loans	**5,771,029**	**135,418**	**5,635,611**
Total loans and advances to customers and receivables on factoring operations	**30,689,028**	**1,360,002**	**29,329,026**

The table below summarizes the quality assurance of loan portfolio at December 31, 2019:

	Gross balance value	Credit loss allowance	Carrying amount
Receivables on factoring operations			
Receivables without individual signs of impairment	25,376,537	402,546	24,973,991
Impaired receivables or receivables with potential impairment indicators:			
- overdue 30-90 days	522,759	59,800	462,959
- overdue than 90 days	663,514	544,527	118,987
Total impaired receivables or receivables with potential impairment indicators	**1,186,273**	**604,327**	**581,946**
Total receivables on factoring operations	**26,562,810**	**1,006,873**	**25,555,937**
Corporate Loans			
Loans without individual signs of impairment	5,588,819	-	5,588,819
Impaired loans or loans with potential impairment indicators:			
- overdue than 90 days	467,606	233,803	233,803
Total impaired loans or loans with potential impairment indicators	**467,606**	**233,803**	**233,803**
Total corporate loans	**6,056,425**	**233,803**	**5,822,622**
Total loans and advances to customers and receivables on factoring operations	**32,619,235**	**1,240,676**	**31,378,559**

7. Loans and advances to customers and receivables on factoring operations (continued)

The Company's policy on collateral for loans and receivables has not changed significantly during the reporting period and there has been no significant change in the overall quality of collateral maintained by the Company since the previous period.

Description of collateral held for loans to corporate customers and individuals carried at amortised cost is as follows as at December 31, 2020:

	Corporate loans	Consumer loans
Receivables on factoring operations collateralised by:		
-Immovable properties	5,490,850	-
-movable properties	4,264	19,418,473
Total	**5,495,114**	**19,418,473**
Unsecured loans	275,915	5,499,526
Total gross value loans and advances to customers and receivables on factoring operations at AC (amount representing exposure to credit risk for each class of loans at AC)	**5,771,029**	**24,917,999**

Description of collateral held for loans and receivables on factoring operations to corporate customers and individuals carried at amortised cost is as
follows as at December 31, 2019:

	Corporate loans	Consumer loans
Loans and receivables collateralised by:		
-Immovable properties	4,826,065	-
-movable properties	-	20,858,503
Total	**4,826,065**	**20,858,503**
Unsecured loans and receivables	1,230,360	5,704,307
Total gross value loans and advances to customers and receivables on factoring operations at AC (amount representing exposure to credit risk for each class of loans at AC)	**6,056,425**	**26,562,810**

8. Properties, equipment and intangible assets

	Furniture and Fixture	Computer Equipments	Intangible assets	Total
Initial cost as at January 1, 2019	-	8,414	-	8,414
Accumulated depreciation as at January 1, 2019	-	(294)	-	(294)
Carrying amount as at January 1, 2019	**-**	**8,120**	**-**	**8,120**
Additions	932	51,055	-	51,987
Depreciation expense	(60)	(6,091)	-	(6,151)
Carrying amount as at December 31, 2019	**872**	**53,084**	**-**	**53,956**
Initial cost as at January 1, 2019	932	59,469	-	60,401
Accumulated depreciation as at January 1, 2019	(60)	(6,385)	-	(6,445)
Carrying amount as at December 31, 2019	**872**	**53,084**	**-**	**53,956**
Additions	26,783	64,062	42,930	133,775
Depreciation and amortization expense	(3,070)	(19,183)	(1,980)	(24,233)
Carrying amount at December 31, 2020	**24,585**	**97,963**	**40,950**	**163,498**
Initial cost as at December 31, 2020	27,715	123,531	42,930	194,176
Accumulated depreciation and amortization as at December 31, 2020	(3,130)	(25,568)	(1,980)	(30,678)
Carrying amount as at December 31, 2020	**24,585**	**97,963**	**40,950**	**163,498**

9. Other assets

	December 31, 2020	December 31, 2019
Non-financial assets:		
Income tax asset	78,968	-
Other	4,080	-
Total other assets	**83,048**	**-**

10. Term borrowings

	December 31, 2020	December 31, 2019
"Pasha Bank" OJSC	13,500,994	10,014,589
"AFB Bank" OJSC	2,600,711	2,975,000
"Expressbank" OJSC	5,987,310	3,427,780
"Rabitabank" OJSC	1,192,021	1,700,000
"International Bank of Azerbaijan" OJSC	-	3,400,000
Total term borrowings	**23,281,036**	**21,517,369**

These borrowings include principal amounts and accrued interest payables as at December 31, 2020 and December 31, 2019.

On March 2, 2020, "AFB Bank" OJSC provided AZN 2,000,000 to the Company for a 12 months period, with 10% annual interest rate. The Company signed another loan agreement with AFB Bank OJSC to obtain AZN 900,000 on July 28, 2020, with 12% annual interest rate for a 12 months period. All loans were current portions of term borrowings and as at 31 December 2020 were AZN 2,600,711.

Loans borrowed from "Pasha Bank" OJSC on January 7, 2020 (K2339/08/36, AZN 365,440, 12 months, annual rate 9%), on May 2, 2020 (K2339/08/37, AZN 500,000, 12 months, annual rate 9%, K2339/08/38, AZN 369,000, 12 months, annual rate 9%), on February 24, 2020 (K2339/08/39, AZN 238,400, 12 months , annual rate 9%), on February 25, 2020 (K2339/08/40, AZN 272,400, 12 months, annual rate 9%), on March 16, 2020 (K2339/08/41, AZN 719,800, 12 months, annual rate 9%), on March 18, 2020 (K2339/08/42, AZN 64,500, 12 months, annual rate 9%), on March 30, 2020 (K2339/08/43, AZN 677,500, 12 months, annual rate 9%), on April 7, 2020 (K2339/08/44, AZN 389,600, 12 months, annual rate 9%), on April 30, 2020 (K2339/08/45, AZN 501,897, 12 months, annual rate 13%), on August 10, 2020 (K2339/08/53, AZN 600,000, 12 months, annual rate 14%) on August 13, 2020 (K23339/08/54, AZN 500,000, 12 months, annual rate 14%), on August 17, 2020 (K2339/08/55, AZN 600,000, 12 months, annual rate 14%), on August 19, 2020 (K2339/08/56, AZN 595,000, 12 months, annual rate 14%) on August 21, 2020 (K2339/08/57, AZN 600,000, 12 months, annual rate 14%), on August 24, 2020 (K2339/08/58, AZN 600,000, 12 months, annual rate 14%), on August 25, 2020 (K2339/08/59, AZN 950,000, 12 months, annual rate 14%), on August 27, 2020 (K2339/08/60, AZN 860,000, 12 months, annual rate 14%), on September 3, 2020 (K2339/08/61, AZN 415,000, 12 months, annual rate 14%), on September 7, 2020 (K2339/08/62, AZN 217,000, 12 months, annual rate 14%), on September 18, 2020 (K2339/08/63, AZN 139,500, 12 months, annual rate 14%), on September 29, 2020 (K2339/08/64, AZN 350,000, 12 months, annual rate 14%), on October 2, 2020 (K2339/08/65, AZN 118,700, 12 months, annual rate 14%), on October 6, 2020 (K2339/08/66, AZN 151,600, 12 months, annual rate 14%), on October 26, 2020 (K2339/08/67, AZN 577,800, 12 months, annual rate 14%), on November 2, 2020 (K2339/08/68, AZN 213,800, 12 months, annual rate 14%), on November 25, 2020 (K2339/15/01, AZN 1,700,000, 12 months, annual rate 14%), on November 30, 2020 (K2339/08/69, AZN 647,000, 12 months, annual rate 14%), on December 17, 2020 (K2339/15/02, AZN 300,000, 12 months, annual rate 14%), on December 21, 2020 (K2339/15/03, AZN 600,000, 12 months, annual rate 14%),

10. Term borrowings (continued)

on December 23, 2020 (K2339/15/04, AZN 500,000, 12 months, annual rate 14%), on December 24, 2020 (K2339/15/05, AZN 1,500,000, 12 months, annual rate 14%) and during the period from January 1, 2020 to December 31, 2020 (total amount of AZN 17,916,005) have maturity period of 1 year and bear an interest rate of 9%, 13%, 14% according to various agreement and term borrowings as at December 31, 2020 were AZN 13,500,994.

Loans borrowed from "Expressbank" OJSC on January 13, 2020 USD 1,350,000 (LD2002009525, AZN 2,295,00, 24 months, annual rate 4,5%),on February 13, 2020 USD 1,287,000 (LD2004218754, AZN 2,187,900, 24 months, annual rate 4,5%), on May 15, 2020 USD 1,520,000 (LD2013669128, AZN 2,584,000, 12 months, annual rate 5%), on September 18, 2020 AZN 2,174,837 (LD2026272207, 16 months, annual rate 15%), on December 8, 2020 AZN 1,000,000 (LD2034329071, 24 months, annual rate 15%). USD equivalent and Azerbaijani manat portions of term borrowings as at December 31, 2020 were AZN 1,450,697 and AZN 4,536,613 respectively.

Loans borrowed from the "Rabitabank" OJSC on June 5, 2020 USD 300,000 (RB/KM-1298, AZN 510,030, 12 months, annual rate 5,5%), on December 29, 2020 USD 500,000 (RB/KM-1357, AZN 851,250, 12 months, annual rate 5.5%) . The term borrowings were AZN 1,192,021 as at December 31, 2020.

11. Debt secutiries in issue and Shareholder bonds

	December 31, 2020	December 31, 2019
Bonds issued in domestic market	2,500,000	-
Bonds issued in domestic market which relates to shareholder	1,000,000	-
Accrued interest for bonds issued in domestic market	15,608	-
Accrued interest for shareholder bonds received by shareholder	8,973	-
Total debt securities in issue	**3,524,581**	**-**

Bonds have 1 and 3 years of maturity with an annual coupon rate of 12.5% and 20% respevtively, payable quarterly.

12. Other liabilities

	December 31, 2020	December 31, 2019
Tax payables other than income tax	25,814	-
Payables to employees	22,001	-
Other liabilities	2,168	2,120
Total other liabilities	**49,983**	**2,120**

13. Share capital

As at December 31, 2020 total authorized number of ordinary shares is 2 (two) thousand shares (as at December 31, 2019: 1 (one) thousand shares with a par value of AZN 1) with a par value of AZN 1 per share.

14. Interest income and expense

	Year ended December 31, 2020	Year ended December 31, 2019
Interest income calculated using the effective interest method		
-Loans and advances to customers and receivables on factoring operations at amortized cost	5,968,056	3,856,805
Total interest income calculated using the effective interest method	**5,968,056**	**3,856,805**
Interest expense		
-Term borrowings	(2,097,021)	(1,350,136)
-Debt securities in inssue	(67,708)	-
-Sahereholder bonds	(46,473)	-
Total interest expense	**(2,211,202)**	**(1,350,136)**
Net interest income	**3,756,854**	**2,506,669**

15. Administrative and other operating expenses

	Year ended December 31, 2020	Year ended December 31, 2019
Staff costs	(1,042,056)	(291,789)
Rent expenses	(484,380)	(212,747)
Credit analysis expense	(136,983)	(66,785)
Integration service expense	(111,534)	(9,974)
Communication expense	(72,766)	(15,303)
Phone mortgage cost	(40,898)	(12,207)
Service fee	(37,642)	(74,698)
Legal service expenses	(33,280)	(19,500)
Audit and accounting service costs	(32,600)	(38,356)
Repair and maintenance expenses	(26,196)	(13,461)
Depreciation and amortization expenses on properties, equipment and intangible assets	(24,233)	(6,151)
Software cost	(13,959)	(11,756)
Consulting service expense	(9,016)	(10,800)
Human resources service expense	(3,300)	(13,200)
Evaluation service expense	(1,200)	(12,577)
Other expense	(62,168)	(72,021)
Total administrative and other operating expenses	**(2,132,211)**	**(881,325)**

16. Other capital

Other capital represents amounts contributed by Company's parent company "AGA Group of Companies" CJSC in order to increase the operating capacity.

17. Amounts due from related party

According to the agreement of February 26, 2019, amounts were provided to Company's related party "City Finance NBCO" LLC for business activities

18. Derivative financial assets

Agreement on Option transactions to the Master Agreement on derivatives transactions No 001 on December 3, 2020, signed two Trade Confirmation between "Pasha Bank" Open Joint Stock Company and "Ferrum Kapital" CJSC. According for the Trade confirmation № 1, to buy USD 3,201,000 amount with 1 USD = 1.8000 AZN exchange rate from Bank on December 30, 2021, and to sell AZN 5,761,800 to Bank on the same transaction and to the agreement the commission fee is 4,5 % (USD 144,045 or AZN 244,876.500). According to the Trade confirmation № 2, to buy USD 150,000 amount with 1 USD = 1.8000 AZN exchange rate from Bank on February 15, 2022, and to sell AZN 270,000 to Bank on the same transaction and to the agreement the commission fee is 4,5 % (USD 6,750 or AZN 11,475).

19. Income taxes

(a) Components of income tax expense

Income tax expense comprises the following:

	Year ended December 31, 2020	Year ended December 31, 2019
Current income tax asset	(525,572)	(802,672)
Deferred income tax benefit	241,161	933,757
Income tax (expense)/benefit for the year	**(284,411)**	**131,085**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Company's income in 2020 and 2019 income is 20%. A reconciliation between the expected and the actual taxation charge is provided below.

	Year ended December 31, 2020	Year ended December 31, 2019
Profit before tax	**1,580,940**	**13,519**
Theoretical tax charge at statutory rate of 20%	(316,188)	(2,704)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Unrecognised other potential deferred tax assets	-	-
- Other	31,777	133,789
Income tax expense/(benefit) for the year	**(284,411)**	**131,085**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and Azerbaijani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

19. Income taxes (continued)

The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2019: 20%).

	December 31, 2019	Recognized in profit or loss	December 31, 2020
Tax effect of taxable or deductible temporaty differences			
Loans and advances to customers and receivables on factoring operations	954,291	280,363	1,234,654
Properties, equipment and intangible assets	170	445	615
Term borrowings	11,362	2,333	13,695
Debt securities in issue	-	4,916	4,916
Other liabilities	-	4,374	4,374
Derivative financial assets	-	(51,270)	(51,270)
Net deferred tax asset	**965,823**	**241,161**	**1,206,984**
Recognised deferred tax asset	965,823	292,431	1,258,254
Recognised deferred tax liability	-	(51,270)	(51,270)
Net deferred tax asset	**965,823**	**241,161**	**1,206,984**

The tax effect of the movements in the temporary differences for the year ended December 31, 2019 are:

	December 31, 2019	Recognized in profit or loss	December 31, 2020
Tax effect of deductible temporary differences			
Loans and advances to customers and receivables on factoring operations	32,066	922,225	954,291
Properties, equipment and intangible assets	-	170	170
Term borrowings	-	11,362	11,362
Net deferred tax asset	**32,066**	**933,757**	**965,823**
Recognised deferred tax asset	32,066	933,757	965,823
Net deferred tax asset	**32,066**	**933,757**	**965,823**

20. Financial risk management

The risk management is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk

The Company exposes itself to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Company's lending and other transactions with counterparties giving rise to financial assets.

The Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For financial guarantees issued, the maximum exposure to credit risk is the amount of the commitment.

20. Financial risk management (continued)

Credit risk management

Credit risk is the single largest risk for the Company's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Loan applications originating with the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by Management.

Expected credit loss (ECL) measurement

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Company: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. PD an estimate of the likelihood of default to occur over a given time period.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

In order to calculate ECL an institution has to be able to determine the probability of default in a lifetime horizon (*Lifetime ECL*) for exposures in stage 2 and in a one-year horizon (*12-month ECL*) for those in stage 1. For the purpose of the IFRS 9 implementation, the estimation approach was applied. Migration matrices were used for the entire portfolio to model transitions between loans with a delay of up to 30 days, loans with a delay of 30-60 days, loans with a delay of 61-90 days, final rating groups and default (overdue days rating> 90).

One of the key requirements of IFRS 9 is inclusion of forward looking components. Usually, this is interpreted as necessity to adjust the estimates along with expected evolution of economy (so called macroeconomic overlay). The comparatively easy and convenient way to include such adjustment to PD lifetime estimates is usage of regression models that explain behaviour of historical defaults rates versus selected macroeconomic variables. Such relationship (if statistically relevant for a given portfolio) should be used to adjust marginal PD curves thus making it more point-in-time (up to possible extent).

20. Financial risk management (continued)

Expected credit loss (ECL) measurement (continued)

For purposes of measuring PD, the Company defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the borrower meets the unlikeliness-to-pay criteria listed below:
  - the Company was forced to restructure the debt;
  - the borrower is deceased;
  - the borrower is insolvent or it is becoming likely that the borrower will be insolvent;
  - the loans originated at a deep discount that reflects the incurred credit losses.

For purposes of disclosure, the Company fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Company.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis and on a portfolio basis. For loans issued to corporate, to individuals and other financial assets, SICR is assessed either on a portfolio basis or an individual basis, depending on the existence of scoring models. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the management. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Company considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met:

For purposes of measuring PD, the Company defines default as a situation when the exposure meets one or more of the following criteria (continued):

- 30 days past due;
- award of risk grade "Special monitoring";
- SICR based on relative threshold based on internal ratings;
- inclusion of loan into a watch list according to the internal credit risk monitoring process;
- Relative threshold defined on the basis of a portfolio for products without existing scoring models: the Company regularly monitors segments with increased credit risk (regions of higher credit risk, failed products, products on which issuing was stopped) and considers such portfolios to have a SICR.

Level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs.

If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Company monitors whether that indicator continues to exist or has changed.

20. Financial risk management (continued)

The Company measures ECL on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio. This approach stratifies the loan pool into homogeneous segments based on borrower-specific information, such as delinquency status, the historical data on losses, location and other predictive information.

When assessment is performed on a portfolio basis, the Company determines the staging of the exposures and measures the loss allowance on a collective basis. The Company analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (such as wholesale or retail), product type, credit risk rating, date of initial recognition, term to maturity, the quality of collateral and loan to value (LTV) ratio. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month).

This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters

The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Company uses different statistical approaches depending on the segment and product type to calculated lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data.

LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement is calculation of LGD on a portfolio basis based on recovery statistics; with details below:

20. Financial risk management (continued)

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL's both incorporate supportable forward-looking information. The Company identified certain key economic variables that correlate with developments in credit risk and ECL's. Forecasts of economic variables (the "base economic scenario") are provided by the Company's economics team on a quarterly basis and provide the best estimate of the expected macro-economic development over the next four years. Refer to the Note 0.

Market risk

The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. The goal of the Company's market risk management is to limit and reduce the amount of possible losses on open market positions that may be incurred by the Company due to negative changes in currency exchange rates and interest rates. The Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk

The Company takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Company does not deal in any derivative instruments for speculative or hedging purposes.

The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At December 31, 2020			At December 31, 2019		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
AZN	32,510,713	(24,187,067)	8,323,646	33,351,785	(9,328,873)	24,022,912
US Dollars	3,776	(2,642,718)	(2,638,942)	1,530	(12,190,616)	(12,189,086))
Total	**32,514,489**	**(26,829,785)**	**5,684,704**	**33,353,315**	**(21,519,489)**	**11,833,826**

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied at the period end date, with all other variables held constant:

	At December 31, 2020	At December 31, 2019
	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 20%	(527,788)	(2,437,817)
US Dollar weakening by 20%	527,788	2,437,817

Other than as a result of any impact on the Company's profit or loss, there is no other impact on the Company's equity as a result of such change in exchange rates. The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Company.

20. Financial risk management (continued)

Currency risk (continued)

The Company makes the following assumptions when carrying out its sensitivity analysis:

- The sensitivity analysis shows the effects of changes that are considered to be reasonably possible over the period until the Company will next present these disclosures, which is usually its next annual reporting period;

The Company discloses only the effects of the changes at the limits of the reasonably possible range of the relevant risk variable, rather than all reasonably possible changes.

Interest rate risk

The Company takes on exposure 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 reduce or create losses in the event that unexpected movements arise. The Management monitors on a daily basis and set limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
December 31, 2020					
Total financial assets	5,768,406	13,324,554	7,257,457	6,164,072	32,514,489
Total financial liabilities	(3,717,515)	(12,105,968)	(9,125,590)	(1,880,712)	(26,829,785)
Net interest sensitivity gap at December 31, 2020	**2,050,891**	**1,218,586**	**(1,868,133)**	**4,283,360**	**5,684,704**
December 31, 2019					
Total financial assets	466,356	7,516,522	12,962,112	12,408,325	33,353,315
Total financial liabilities	(572,775)	(1,247,344)	(12,131,146)	(7,568,224)	(21,519,489)
Net interest sensitivity gap at December 31, 2019	**(106,421)**	**6,269,178**	**830,966**	**4,840,101**	**11,833,826**

The Company's profit is not exposed to AZN market interest rate changes because the Company does not have variable interest assets or liabilities denominated in AZN.

The Company monitors interest rates for its financial instruments. The table below summarizes interest rates based on reports reviewed by key management personnel:

	December 31, 2020		December 31, 2019	
In % p.a.	AZN	USD	AZN	USD
Assets				
Loans and advances to customers and receivables on factoring operations	4%-34%	-	4%-34%	-
Liabilities				
Term borrowings	9%-15%	5%-6%	9%-15%	5%-6%
Bonds issued on domestic market	12%-20%	-	-	-

The sign "-"in the table above means that the Company does not have the respective assets or liabilities in the corresponding currency.

All other financial assets and financial liabilities are non-interest bearing.

20. Financial risk management (continued)

Geographical risk concentrations

The geographical concentration of the Company's financial assets and liabilities at December 31, 2020 is set out below:

	Azerbaijan	Non-OECD	Total
Financial assets			
Cash and cash equivalents	776,866	-	776,866
Loans and advances to customers and receivables on factoring operations	29,329,026	-	29,329,026
Amount due from related party	2,152,245		2,152,245
Derivative financial assets	256,352	-	256,352
Total financial assets	**32,514,489**	**-**	**32,514,489**
Financial liabilities			
Term borrowings	(23,281,036)	-	(23,281,036)
Bonds	(2,515,608)	-	(2,515,608)
Sahreholder Bonds	(1,008,973)	-	(1,008,973)
Other liabilities	(24,168)	-	(24,168)
Total financial liabilities	**(26,829,785)**	**-**	**(26,812,706)**
Net position on-balance sheet financial instruments	**5,684,704**	**-**	**5,684,704**

Assets and liabilities have generally been based on the country in which the counterparty is located.

The geographical concentration of the Company's financial assets and liabilities at December 31, 2019 is set out below:

	Azerbaijan	Non-OECD	Total
Financial assets			
Cash and cash equivalents	466,356	-	466,356
Loans and advances to customers and receivables on factoring operations	31,378,559	-	31,378,559
Amount due from related party	1,508,400	-	1,508,400
Total financial assets	**33,353,315**	**-**	**33,353,315**
Financial liabilities			
Term borrowings	(21,517,369)	-	(21,517,369)
Other liabilities	(2,120)	-	(2,120)
Total financial liabilities	**(21,519,489)**	**-**	**(21,519,489)**
Net position on-balance sheet financial instruments	**11,833,826**	**-**	**11,833,826**

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations arising from its financial liabilities. It refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they actually fall due. 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 the management of financial institutions.

20. Financial risk management (continued)

Liquidity risk (continued)

In order to manage liquidity risk, the Company performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. They also set parameters for the risk diversification of the liability base.

The Company's liquidity policy is comprised of the following:

- Projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;
- Maintaining a funding plan commensurate with the Company's strategic goals;
- Maintaining a diverse range of funding sources thereby increasing the Company's borrowing capacity, domestically as well as from foreign sources;
- Maintaining highly liquid and high-quality assets;
- Adjusting its product base by time bands against available funding sources; and
- Constant monitoring of asset and liability structures by time-bands.

The following tables show carrying amounts of liabilities of the Company including potential future non-accrued interest ranked on the basis of the remaining period from the period end date to their contractual maturity date.

The undiscounted maturity analysis of financial liabilities at December 31, 2020 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Total
Liabilities					
Term borrowings	(3,957,376)	(13,136,555)	(7,402,764)	(916,934)	(25,413,629)
Bonds issued on domestic market	(295,564)	(1,477,818)	(1,092,502)	(642,113)	(3,507,997)
Other liabilities	(24,168)	-	-	-	(24,168)
Total potential future payments for financial obligations	**(4,277,108)**	**(14,614,373)**	**(8,495,266)**	**(1,559,047)**	**(28,945,794)**

The undiscounted maturity analysis of financial liabilities at December 31, 2019 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Total
Liabilities					
Term borrowings	(570,655)	(1,247,344)	(12,131,146)	(7,568,224)	(21,517,369)
Other liabilities	(2,120)	-	-	-	(2,120)
Total potential future payments for financial obligations	**(572,775)**	**(1,247,344)**	**(12,131,146)**	**(7,568,224)**	**(21,519,489)**

20. Financial risk management (continued)

Liquidity risk (continued)

The Company does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Company monitors expected maturities and the resulting expected liquidity gap as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Total
At December 31, 2020					
Financial assets	5,768,406	13,324,554	7,257,457	6,164,072	32,514,489
Financial liabilities	(3,717,515)	(12,105,968)	(9,125,590)	(1,880,712)	(26,829,785)
Net liquidity gap based on expected maturities	**2,050,891**	**1,218,586**	**(1,868,133)**	**4,283,360**	**5,684,704**
At December 31, 2019					
Financial assets	466,356	7,516,522	12,962,112	12,408,325	33,353,315
Financial liabilities	(572,775)	(1,247,344)	(12,131,146)	(7,568,224)	(21,519,489)
Net liquidity gap based on expected maturities	**(106,421)**	**6,269,178**	**830,966**	**4,840,101**	**11,833,826**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Company's liquidity risk. It is unusual for financial corporations 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 maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Company and its exposure to changes in interest and exchange rates.

Management considers that the current favorable macroeconomic environment for financial institutions operating in Azerbaijan, positive cash flows, the profitability of operations and access to foreign financial resources as required significantly decrease the risk of losses arising from current liquidity mismatches.

21. Management of capital

The Company's objectives when managing capital are (i) to comply with the minimum capital requirements set by Financial Market Supervisory Authority (FIMSA), (ii) to safeguard the Company's ability to continue as a going concern and (iii) to maintain a sufficient capital base ratios in order to support its business and to maximize shareholders' value.

There are no financial covenants stipulated by borrowing agreements in respect of capital adequacy requirements.

22. Contingencies and commitments

Legal proceedings

From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates and both internal and external professional advice the Company's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

22. Contingencies and commitments (continued)

Tax contingencies

Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation, as applied to the transactions and activity of the Company, may be challenged by the relevant state authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

23. Fair value disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	December 31, 2020			December 31, 2019		
	Level 1 fair value	Level 2 fair Value	Carrying value	Level 1 fair value	Level 2 fair value	Carrying value
Financial assets						
Loans and advances to customers and receivables on factoring operations	-	29,329,026	29,329,026	-	31,378,559	31,378,559
Cash and cash equivalents	776,866	-	776,866	466,356	-	466,356
Amounts due from related party	-	2,152,245	2,152,245	-	1,508,400	1,508,400
Derivative financial assets	-	256,352	256,352	-	-	-
Total	**776,866**	**31,737,623**	**32,514,489**	**466,356**	**32,886,959**	**33,353,315**

23. Fair value disclosures (continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	December 31, 2020			December 31, 2019		
	Level 1 fair Value	Level 2 fair value	Carrying value	Level 1 fair value	Level 2 fair value	Carrying value
Financial liabilities						
Term borrowings	-	(23,281,036)	(23,281,036)	-	(21,517,369)	(21,517,369)
Bonds	-	(2,515,608)	(2,515,608)	-	-	-
Shareholder Bonds	-	(1,008,973)	(1,008,973)	-	-	-
Other liabilities	-	(24,168)	(24,168)	-	(2,120)	(2,120)
Total	-	**(26,829,785)**	**(26,829,785)**	-	**(21,519,489)**	**(21,519,489)**

24. Related party transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At December 31, 2020, the outstanding balances with related parties were as follows:

	Shareholder	Entities under common control
Corporate bonds (contractual interest rate: 20%)	1,008,973	-
Amount due from related party	-	2,152,245

At December 31, 2019, the outstanding balances with related parties were as follows:

	Entities under common control
Amount due from related party	1,508,,400

The income and expense items with related parties for the year 2020 were as follows:

	Shareholder	Entities under common control
Interest expense	(46,473)	-
Rent expense	-	(260,343)
Communication expenses	-	(19,549)
Audit fee	-	(12,300)

24. Related party transactions (continued)

The income and expense items with related parties for 2019 were as follows:

	Entities under common control
Rent expense	(38,940)
Communication expenses	(5,848)
Audit fee	(15,700)

Key management compensation is presented below:

	Year ended December 31, 2020	Year ended December 31, 2019
Salaries	(96,297)	(46,985)
State pension and social security costs	(14,296)	(7,530)
Short-term bonuses	-	(139)
Total	**(110,593)**	**(54,655)**

25 Rectification/ reclassification of prior year errors/ figures

During the preparation of the financial statements for the year ended December 31, 2020, the Company determined that certain amounts as of December 31, 2019 had not been properly reflected due to mathematical errors.

To correct these errors, the Company has recalculated the comparative data for December 31, 2020 and the year ended on that date.

Effect on statement financial position as at December 31, 2020:

	Before resstatement	Effect of adjustments	After resstatement
Amount due from related party	-	1,508,400	1,508,400
Deferred tax asset	-	965,823	965,823
Other assets	83,472	(83,472)	-
Current income tax payable	-	606,757	606,757
Other capital	10,487,012	1,508,400	11,995,412
Retained earnings	(25,158)	275,594	250,436

25 Rectification/ reclassification of prior year errors/ figures (continued)

Effect on statement of profit or loss and other comprehensive income for the year ended December 31, 2020:

	Before resstatement	Effect of adjustments	After resstatement
Interest income	3,856,805	(538,988)	3,317,817
Other income	9,593	13,293	22,886
General and administrative expense	(858,323)	(23,002)	(881,325)
Income tax expense	(112,443)	(690,229)	(802,672)
Deferred tax benefit	-	933,757	933,757
Net profit for the year	**449,773**	**(305,169)**	**144,604**

Effect on statement of cash flows for the year ended December 31, 2020:

	Before resstatement	Effect of adjustments	After resstatement
Profit before income tax	562,216	(548,697)	13,519
Interest income	-	(3,317,817)	(3,317,817)
Interest expense	-	1,350,136	1,350,136
Depreciation	6,418	(267)	6,151
Loans to customers and receivable on factoring operations	(19,386,573)	647,388	(18,739,185)
Other assets	-	(195,915)	(195,915)
Other liabilities	(1,035,946)	(56,809)	(1,092,755)
Amounts due from related party	-	(1,508,400)	(1,508,400)
Settlements with related parties	(2,603,294)	2,603,294	-
Tax settlements	(163,848)	163,848	-
Interest paid	-	(1,293,328)	(1,293,328)
Interest received	-	3,262,402	3,262,402
Net cash used in operating activities before tax	**(21,525,304)**	**1,105,835**	**(20,419,469)**
Acquisition of properties and equipment	(52,050)	63	(51,987)
Net cash from/(used in) investing activities	**(52,050)**	**63**	**(51,987)**
Proceeds from term borrowings	9,598,191	14,965,709	24,563,900
Repayment of term borrowings	-	(14,965,709)	(14,965,709)
(Decrease)/increase in other capital	10,487,012	(1,094,894)	9,392,118
Net cash from financing activities	**20,085,203**	**(1,094,894)**	**18,990,310**

26. Events after the reporting period

There is no significant event after reporting date.