PASHA Capital Investment Company CJSC

Financial statements

Year ended 31 December 2019
together with independent auditor's report

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Ernst & Young Holdings (CIS) B.V.
Port Baku Towers Business Centre
South Tower, 9th Floor
153, Neftchilar avenue
Baku, AZ1010, Azerbaijan

Tel: +994 (12) 490 7020
Fax: +994 (12) 490 7017
www.ey.com/az

Ernst & Yanq Holdinqs (SiAyEs) Bi.Vi.
Port Baku Tauers Biznes Mərkəzi
Cənub Qülləsi, 9-cu mərtəbə
153 Neftçilər prospekti
Bakı, AZ1010, Azərbaycan

Tel: +994 (12) 490 7020
Faks: +994 (12) 490 7017

Independent auditor's report

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

Opinion

We have audited the financial statements of PASHA Capital Investment Company CJSC (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).

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

Emphasis of matter

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

Responsibilities of Management and Supervisory Board for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Ernst & Young Holdings (CIS) B.V.

1 June 2020

Baku, Azerbaijan

Statement of financial position

As at 31 December 2019

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

	Notes	*31 December 2019*	*31 December 2018*
Assets			
Cash and cash equivalents	5	3,671,135	987,805
Investment securities	6	8,112,583	1,371,056
Trade and other receivables	7	25,632	77,329
Property and equipment	8	47,459	–
Intangible assets	9	67,750	62,750
Right-of-use asset	3	55,285	–
Deferred income tax assets	10	–	8,505
Prepayments		29,696	90,450
Total assets		**12,009,540**	**2,597,895**
Liabilities			
Advances received	11	3,221,614	912,974
Borrowings under repurchase agreements	12	5,967,986	–
Lease liability	3	56,801	–
Current income tax liabilities	10	118,643	48,648
Deferred income tax liabilities	10	33,653	–
Deferred revenue	3	–	55,672
Trade and other payables	13	102,330	53,104
Total liabilities		**9,501,027**	**1,070,398**
Equity			
Share capital	14	300,000	300,000
Retained earnings		2,069,988	1,227,497
Net unrealized gain on investment securities	14	138,525	–
Total equity		**2,508,513**	**1,527,497**
Total liabilities and equity		**12,009,540**	**2,597,895**

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

Director — Mr. Jeyhun Hajiyev

1 June 2020

The accompanying notes on pages 5-33 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2019

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

	Notes	*For the year ended 31 December 2019*	*2018*
Interest revenue calculated using effective interest rate	18	499,503	56,216
Interest expense on borrowings under repurchase agreements	12	(241,670)	–
Interest expense on lease liability	3	(3,857)	–
Net interest income		**253,976**	**56,216**
Credit loss expense on financial assets	5, 6, 7	(11,919)	(10,314)
Net interest income after credit loss expense		**242,057**	**45,902**
Fee and commission income	18	838,204	688,757
Net gains on dealing with debt securities	19	419,716	76,027
Non-interest income		**1,257,920**	**764,784**
Personnel expenses	16	(226,389)	(58,483)
Other operating and administrative expenses	17	(176,174)	(120,863)
Depreciation and amortisation	3, 8	(26,837)	–
Net gain from foreign currency translation differences		61	–
Non-interest expense		**(429,339)**	**(179,346)**
Profit before income tax expense		**1,070,638**	**631,340**
Income tax expense	10	(228,147)	(125,056)
Profit for the year		**842,491**	**506,284**
Other comprehensive income			
Net change in fair value of investment securities at fair value through other comprehensive income	6	152,894	–
Changes in allowance for expected credit losses of investment securities at fair value through other comprehensive income	6	20,262	–
Net unrealised gains on investment securities at fair value through other comprehensive income		**173,156**	**–**
Income tax relating to components of other comprehensive income	10	(34,631)	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**138,525**	**–**
Total comprehensive income for the year		**981,016**	**506,284**

The accompanying notes on pages 5-33 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2019

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

	Share capital (Note 14)	*Retained earnings*	*Net unrealized gains on investment securities*	*Total equity*
As at 1 January 2018	**300,000**	**721,213**	**–**	**1,021,213**
Profit for the year	–	506,284	–	**506,284**
Other comprehensive income for the year	–	–	–	**–**
Total comprehensive income for the year	**–**	**506,284**	**–**	**506,284**
As at 31 December 2018	**300,000**	**1,227,497**	**–**	**1,527,497**
Profit for the year	–	842,491	–	**842,491**
Other comprehensive income for the year	–	–	138,525	**138,525**
Total comprehensive income for the year	**–**	**842,491**	**138,525**	**981,016**
As at 31 December 2019	**300,000**	**2,069,988**	**138,525**	**2,508,513**

The accompanying notes on pages 5-33 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2019

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

	Notes	For the year ended 31 December 2019	2018
Cash flows from operating activities			
Interest received		309,241	7,245
Interest paid		(233,184)	–
Fees and commissions received		908,422	685,716
Personnel expenses paid		(169,886)	(55,442)
General and administrative expenses paid		(164,963)	(120,863)
Net realized gains on sale of investment securities		419,716	76,027
Cash flows from operating activities before changes in operating assets and liabilities		**1,069,346**	**592,683**
Net increase in operating assets			
Trade and other receivables		–	(15,038)
Prepayments		(4,845)	(83,326)
Net increase/(decrease) in operating liabilities			
Advances received		2,308,701	912,974
Deferred revenue		–	33,695
Trade and other payables		(18,487)	(67,639)
Net cash from operating activities before income tax		**3,354,715**	**1,373,349**
Income tax paid		(150,626)	(112,152)
Net cash from operating activities		**3,204,089**	**1,261,197**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		21,418,097	–
Purchase of investment securities		(27,816,660)	(1,352,574)
Proceeds received from deposits with banks		–	30,489
Purchase and prepayments for property and equipment		(51,532)	–
Acquisition of intangible assets		(5,000)	–
Net cash used in investing activities		**(6,455,095)**	**(1,322,085)**
Cash flows from financing activities			
Proceeds from borrowings under repurchase agreements	24	273,673,680	4,419,778
Repayment of borrowings under repurchase agreements	24	(267,714,180)	(4,419,778)
Lease liability paid	3	(25,105)	–
Net cash used in financing activities		**5,934,395**	**–**
Effect of ECL on cash and cash equivalents	5	(59)	**–**
Net increase/(decrease) in cash and cash equivalents		**2,683,330**	**(60,888)**
Cash and cash equivalents, beginning	5	987,805	1,048,693
Cash and cash equivalents, ending	5	**3,671,135**	**987,805**

The accompanying notes on pages 5-33 are an integral part of these financial statements.

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

1. Principal activities

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

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

The Company's registered legal address is 170 Tolstoy Street, Baku, AZ1000, the Republic of Azerbaijan. The Company's current address is 69 Nizami Street, Baku, AZ1005, the Republic of Azerbaijan.

As at 31 December 2019 and 2018, the Company is wholly owned by PASHA Holding LLC. As at 31 December 2019, the ultimate beneficial owners of the Company are Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva and Mr. Arif Pashayev (31 December 2018: Mrs. Leyla Aliyeva and Mrs. Arzu Aliyeva) who exercise joint control over the Company.

2. Basis of preparation

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

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

The Azerbaijani manat is the functional and presentation currency of the Company as the majority of the transactions are denominated, measured, or funded in Azerbaijani manat. Transactions in other currencies are treated as transactions in foreign currencies. These financial statements are presented in Azerbaijani manat ("AZN"), except when otherwise indicated.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies, for certain investment securities at FVOCI which have been measured at fair value.

3. Summary of significant accounting policies

Changes in accounting policies

The Company applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

The Company applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

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

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Considering that the Company didn't have any contract which falls under the scope of IFRS 16 there was no effect of adoption IFRS 16 as at 1 January 2019.

(a) Nature of the effect of adoption of IFRS 16

The Company has lease contracts for items of property and equipment. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under Prepayments and Trade and other non-financial payables, respectively.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Company upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The carrying values of right-of-use assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognized in the statement of profit or loss and other comprehensive income.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms of a year. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Amounts recognized in the statement of financial position and income statement

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets	***Lease liabilities***
As at 1 January 2019	**–**	**–**
Additions	78,049	(78,049)
Depreciation expense	(22,764)	–
Interest expense	–	(3,857)
Payments	–	25,105
As at 31 December 2019	**55,285**	**(56,801)**

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Interpretation did not have an impact on the financial statements of the Company.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the financial statements of the Company.

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

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Annual improvements 2015-2017 cycle

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Company's current practice is in line with these amendments, they had no impact on the financial statements of the Company.

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

Financial assets at amortized cost

The Company only measures financial assets at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

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

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

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

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

The SPPI test

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

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

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

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

Debt instruments at FVOCI

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

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

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

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

Reclassification of financial assets and liabilities

The Company determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases in accordance with the requirements of IFRS 9 *Financial Instruments*. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets and liabilities in 2019 and 2018.

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

3. Summary of significant accounting policies (continued)

Offsetting of financial instruments

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

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts in banks and deposits that mature within ninety days of the date of origination and are free from contractual encumbrances.

Trade and other receivables

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

Advances received

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

Deferred Revenue

Deferred revenue represents payments received in advance for brokerage services which have not yet been provided yet. As at 31 December 2019, the Company didn’t have deferred revenue (2018: 55,672).

Trade and other payables

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

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Company retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as borrowings under repurchase agreements, reflecting the transaction’s economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Company reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments held for collect or sell pledged as collateral, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within reverse repurchase agreements, reflecting the transaction’s economic substance as a loan by the Company. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR. If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

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

3. Summary of significant accounting policies (continued)

Fair value measurement

The Company measures financial instruments, such as investment securities at FVOCI at each statement of financial position date.

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

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

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Derecognition of financial assets and financial liabilities

Financial assets

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

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

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

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities (continued)

Write-off

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

Financial liabilities

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

Prepayments

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

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

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

	Years
Furniture and fixtures	5
Computers, communication and other equipment	4

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year end.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognized in the statement of profit or loss and other comprehensive income. Costs related to repairs and renewals are charged when incurred and included in other operating and administrative expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets consist of license and website development.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives up to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Azerbaijan. Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

3. Summary of significant accounting policies (continued)

Taxation (continued)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Azerbaijan also has various operating taxes that are assessed on the Company's activities. These taxes are included as a component of general and administrative expenses. The tax authorities permit the settlement of sales and purchases value added taxes ("VAT") on a net basis.

VAT payable represents VAT related to sales net of VAT on purchases, which have been settled at the reporting date. VAT related to sales, which have not been settled at the statement of financial position date (VAT deferral), is also included in VAT payable. VAT recoverable relates to purchases, which have not been settled at the reporting date. VAT recoverable is reclaimable against VAT on sales upon payment for the purchases.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Equity

Share capital

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

Fiduciary activities

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

Contingencies

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

Revenue and expense recognition

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

Interest and similar revenue and expense

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

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

3. Summary of significant accounting policies (continued)

Revenue and expense recognition (continued)

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

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

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

Fee and commission income

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

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

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

Fee income from providing transaction services

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

Foreign currency translation

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

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

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

	31 December 2019	*31 December 2018*
1 US dollar	AZN 1.7000	AZN 1.7000
1 euro	AZN 1.9035	AZN 1.9468

Standards and interpretations issued, but not yet effective

The standard that is issued, but not yet effective, up to the date of issuance of the Company's financial statements is disclosed below, except for those standards which in the opinion of the Management, will clearly not impact the Company. The Company intends to adopt this standard, when it becomes effective.

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

3. Summary of significant accounting policies (continued)

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

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have a significant impact on the Company's financial statements.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Company's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the reporting date as well as affecting the reported income and expenses for the year. Although the estimates are based on management's best knowledge and judgment of current facts as at the reporting date, the actual outcome may differ from these estimates. The most significant use of judgments and estimates are as follows:

Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk.

These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

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

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 22.

Leases − estimating the incremental borrowing rate

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

The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Bank's credit rating). More details are provided in Note 3.

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Tax legislation in the Republic of Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management believes that as at 31 December 2019 and 2018 its interpretation of the relevant legislation is appropriate and that the Company's tax position will be sustained.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2019	***31 December 2018***
Current accounts with credit institutions	3,671,194	987,805
Less: allowance for impairment	(59)	−
Cash and cash equivalents	**3,671,135**	**987,805**

Current accounts with credit institutions consist of non-interest bearing correspondent account balances with resident and non-resident banks. All balances of cash and cash equivalents are allocated to Stage 1. The ECL relating to cash equivalents of the Company is AZN 59 (31 December 2018: rounds to zero).

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

6. Investment securities

Investment securities including those pledged under repurchase agreements comprise:

	31 December 2019	*31 December 2018*
Debt securities at amortised cost		
Treasury bills of the Ministry of Finance and Eurobonds	8,707	1,371,056
Less: allowance for impairment	–	–
Debt securities at amortised cost	**8,707**	**1,371,056**
Debt securities at FVOCI		
Treasury bills of the Ministry of Finance	8,103,876	–
Debt securities at FVOCI	**8,103,876**	**–**
Investment securities	**8,112,583**	**1,371,056**

As at 31 December 2019, balances included accrued interest receivable of AZN 115,054 (31 December 2018: AZN 372). Investment securities are placed with effective interest rates in the range of 3.05%-11.7% p.a. (2018: 7.50%-11.7% p.a.) and maturing up to 20 December 2022 (31 December 2018: 26 January 2021).

As at 31 December 2019, debt securities at FVOCI in total amount of AZN 6,073,041 (31 December 2018: nil) are pledged as collateral under repurchase agreements (Note 13). The counterparties have no right to resell or repledge the pledged debt securities.

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

Debt securities at amortised cost	***2019 Stage 1***	***2018 Stage 1***
Gross carrying value as at 1 January	**1,371,056**	**–**
New assets originated or purchased	8,707	1,371,056
Assets repaid	(1,371,056)	–
At 31 December	**8,707**	**1,371,056**

Debt securities at amortised cost	***2019 Stage 1***	***2018 Stage 1***
ECLs as at 1 January	**–**	**–**
New assets originated or purchased	2,119	–
Assets repaid	–	–
Assets sold	(2,119)	–
At 31 December	**–**	**–**

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

Debt securities at FVOCI	***2019 Stage 1***	***2018 Stage 1***
Gross carrying value as at 1 January	**–**	**–**
New assets originated or purchased	28,154,562	–
Assets repaid	(380,500)	–
Assets sold	(19,823,080)	–
Fair value increase	152,894	–
At 31 December	**8,103,876**	**–**

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

6. Investment securities

Debt securities at FVOCI	***2019 Stage 1***	***2018 Stage 1***
ECLs as at 1 January	**–**	**–**
New assets originated or purchased	(20,262)	–
Assets repaid	–	–
Assets sold	–	–
At 31 December	**(20,262)**	**–**

7. Trade and other receivables

	31 December 2019	***31 December 2018***
Commission receivables	11,386	29,528
Receivables from agent services	15,101	64,281
Less: allowance for impairment	(855)	(16,480)
Trade and other receivables	**25,632**	**77,329**

In determining the recoverability of a trade and other accounts receivable, the Company considers any change in the credit quality of the trade and other accounts receivable from the date credit was initially granted up to the end of the reporting period.

As at 31 December 2019, all balances are allocated to Stage 1. As at 31 December 2018, the amount of AZN 16,480 was allocated to Stage 3, the remaining balances are allocated to Stage 1. The ECL relating trade receivables is amounted to AZN 855 (31 December 2018: AZN 16,480).

8. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	***Computers, communication and other equipment***	***Total***
31 December 2018	**–**	**–**	**–**
Additions	15,824	35,708	**51,532**
Disposals	–	–	**–**
31 December 2019	**15,824**	**35,708**	**51,532**
Accumulated depreciation			
31 December 2018	**–**	**–**	**–**
Depreciation charge	(1,680)	(2,393)	**(4,073)**
Disposals	–	–	**–**
31 December 2019	**(1,680)**	**(2,393)**	**(4,073)**
Net book value			
31 December 2018	**–**	**–**	**–**
31 December 2019	**14,144**	**33,315**	**47,459**

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

9. Intangible assets

The movements in intangible assets were as follows:

	Website development	*Licence with indefinite useful life*	*Total*
Cost			
31 December 2017	**–**	**62,750**	**62,750**
Additions	–	–	**–**
31 December 2018	**–**	**62,750**	**62,750**
Additions	5,000	–	**5,000**
31 December 2019	**5,000**	**62,750**	**67,750**
Accumulated amortization			
31 December 2017	**–**	**–**	**–**
Amortization charge	–	–	**–**
31 December 2018	**–**	**–**	**–**
Amortization charge	–	–	**–**
31 December 2019	**–**	**–**	**–**
Net book value			
31 December 2017	**–**	**62,750**	**62,750**
31 December 2018	**–**	**62,750**	**62,750**
31 December 2019	**5,000**	**62,750**	**67,750**

As at 31 December 2019 and 2018 licenses includes AZN 62,750 that are represented by fee paid for membership in the Baku Stock Exchange and fee paid for investment activity license. These licenses have indefinite useful life and subject to impairment.

10. Taxation

The corporate income tax expense comprises:

	31 December 2019	*31 December 2018*
Current tax charge	(220,620)	(131,543)
Deferred tax (charge)/credit	(42,158)	6,487
Deferred tax recognized in other comprehensive income	34,631	–
Income tax expense	**(228,147)**	**(125,056)**

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

	31 December 2019	*31 December 2018*
Net gains on investment securities at fair value through OCI	(34,631)	–
Income tax charged to other comprehensive income	**(34,631)**	**–**

Standard profit tax rate comprises 20% for 2019 and 2018, and payers have to file profit tax returns. According to the Tax Code of the Republic of Azerbaijan companies are eligible to reduce profit tax amount for the amount of withholding taxes paid on interest income in order to avoid double taxation. Rate of withholding tax applicable to interest income in 2019 and 2018 was 10%.

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

10. Taxation (continued)

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

	For the year ended 31 December	
	2019	***2018***
Profit before income tax expense	**1,070,638**	**631,340**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**(214,128)**	**(126,268)**
Non-deductible expenses	(10,803)	-
Other	(3,216)	1,212
Income tax expense	**(228,147)**	**(125,056)**

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

		Origination and reversal of temporary differences		
	31 December 2018	***In the statement of profit or loss***	***In other comprehensive income***	***31 December 2019***
Tax effect of deductible temporary differences				
Trade and other payables	5,689	13,872	–	19,561
Prepayments	600	(600)	–	–
Lease liability	–	11,360	–	11,360
Cash and cash equivalents	–	12	–	12
Deferred tax asset	**6,289**	**24,644**	**–**	**30,933**
Tax effect of taxable temporary differences				
Investment securities	–	(5,753)	(34,631)	(40,384)
Trade and other receivables	2,216	(2,569)	–	(353)
Right-of-use-asset	–	(11,057)	–	(11,057)
Intangible assets	–	(8,239)	–	(8,239)
Property and equipment	–	(4,553)	–	(4,553)
Deferred tax liability	**2,216**	**(32,171)**	**(34,631)**	**(64,586)**
Deferred tax assets/(liabilities)	**8,505**	**(7,527)**	**(34,631)**	**(33,653)**

Taxes payable of the Company is comprised of current tax liability in the amount of AZN 118,643 as at 31 December 2019 (31 December 2018: AZN 48,648).

11. Advances received

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

	31 December 2019	***31 December 2018***
Corporate customers	407,006	4,309
Individual customers	2,814,608	908,665
Advances received	**3,221,614**	**912,974**

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

12. Borrowings under repurchase agreements

Borrowings under repurchase agreements comprise the following transactions with:

	31 December 2019	***31 December 2018***
Non-related party	4,967,750	–
Related party	1,000,236	–
Borrowings under repurchase agreements	**5,967,986**	**–**

The Company's debt securities of AZN 6,073,041 (31 December 2018: nil) are pledged as collateral under these repurchase agreements (Note 6).

As at 31 December 2019, the Company's liability under these agreements were borrowed at interest rate ranging between 3%-4% which amounted to interest expense of AZN 241,670 (2018: nil).

13. Trade and other payables

Trade and other payables comprise the following:

	31 December 2019	***31 December 2018***
Other financial liabilities		
Commission payables	4,527	9,121
	4,527	**9,121**
Other non-financial liabilities		
Salaries, bonuses and other employee related payables	56,503	3,041
Accrued expenses	41,300	30,090
Other	–	10,852
	97,803	**43,983**
Trade and other payables	**102,330**	**53,104**

14. Equity

As at 31 December 2019 and 2018, the number of authorized ordinary shares of the Company was 3,000 with a nominal value per share of AZN 100. All authorized shares have been issued and fully paid.

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

Unrealised gains on investment securities

This reserve records fair value changes on debt securities at FVOCI which amounted to AZN 138,525 (2018: nil).

15. Personnel expenses

Personnel expenses comprise:

	For the year ended 31 December	
	2019	***2018***
Salaries and bonuses	(192,215)	(44,192)
Social security costs	(31,091)	(13,091)
Other	(3,083)	(1,200)
Total personnel expenses	**(226,389)**	**(58,483)**

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

16. Other operating and administrative expenses

Other operating and administrative expenses comprise:

	For the year ended 31 December	
	2019	***2018***
Professional services	(80,104)	(51,331)
Commission expense	(20,926)	(9,173)
Rent expense	(15,928)	(15,973)
Membership fees	(13,452)	(25,733)
Bank charges	(10,080)	(1,690)
Other	(35,684)	(16,963)
Other operating and administrative expenses	**(176,174)**	**(120,863)**

17. Interest revenue calculated using effective interest rate

Interest revenue calculated using effective interest rate comprises:

	For the year ended 31 December	
	2019	***2018***
Investment securities measured at FVOCI	494,497	–
Income from reverse repurchase agreements	4,432	7,245
Investment securities measured at amortized cost	574	48,971
Interest revenue calculated using effective interest rate	**499,503**	**56,216**

18. Fee and commission income

Fee and commission income comprises:

	For the year ended 31 December	
	2019	***2018***
From operations with securities	797,147	657,257
From underwriting services	41,057	31,500
Net Fee and commission income	**838,204**	**688,757**

19. Net gains on dealing with debt securities

Net gains on dealing with debt securities comprises:

	For the year ended 31 December	
	2019	***2018***
From operations with own debt securities	231,574	-
From operations with customers' debt securities	188,142	76,027
Net Fee and commission income	**419,716**	**76,027**

20. Commitments and contingencies

Operating environment

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan economy is largely dependent upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the government as well as crude oil prices and stability of Azerbaijani manat.

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

20. Commitments and contingencies (continued)

Operating environment (continued)

The Azerbaijan economy has been negatively impacted by decline of oil prices and devaluation of Azerbaijani manat against USD during 2015. This resulted in reduced access to capital, a higher cost of capital, inflation and uncertainty regarding economic growth.

In response to these challenges, CBAR tightened monetary policy and introduced a number of measures to stabilize macroeconomic situation. In addition, Azerbaijani government announced plans to accelerate reforms and support to financial system. On 6 December 2016 President of the Republic of Azerbaijan approved “Strategic road maps for the national economy and main economic sectors of Azerbaijan”.

During 2018 CBAR maintained monetary policy aimed at macroeconomic stability, including low one-digit inflation and steady AZN rate. At the same time CBAR gradually reduced refinancing rate from 15% to 9.75%.Furthermore, during 2019 CBAR continued easing monetary conditions while maintaining stability of Azerbaijani manat. As a result, CBAR refinancing rate further declined from 9.75% to 7.5% and USD/AZN rate remained unchanged. The Company’s management is monitoring economic developments in the current environment and taking precautionary measures it considered necessary in order to support the sustainability and development of the Company’s business in the foreseeable future.

Taxation

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

As at 31 December 2019, management believes that its interpretation of the relevant legislation is appropriate and that the Company’s tax position will be sustained.

Legal

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

Fiduciary activities

As at 31 December 2019, debt securities held on behalf of customers amounted to AZN 215,442,225 (31 December 2018: AZN 123,217,209).

21. Risk management

Introduction

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

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

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

21. Risk management (continued)

Capital management objectives, policies and approach

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

The capital management objectives are:

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

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty or Company of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors.

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

	31 December 2019	***31 December 2018***
Cash and cash equivalents	3,671,194	987,805
Investment securities	8,112,583	1,371,056
Trade and other receivables	26,487	77,329
Total maximum exposure to credit risk	**11,810,264**	**2,436,190**

Impairment assessment

The Company calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows*:*

PD — The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD — The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

21. Risk management (continued)

Credit risk (continued)

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Company groups its financial assets into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When financial assets are first recognised, the Company recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 2.

Stage 2: When a financial asset has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: The financial asset is considered credit-impaired. The Company records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

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

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

Such events include:

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

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

Credit quality per class of financial assets

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

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

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

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

21. Risk management (continued)

Credit risk (continued)

Internal rating and PD estimation process

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

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

International external rating agency (Moody's) rating and internal rating in the Moody's equivalent	***Internal rating description***
Aaa to A3	High grade
Baa1 to B3	Standard grade
Caa1 to Ca	Sub-Standard grade
C – Default	Impaired

Unrated financial assets are allocated to credit quality categories on an individual basis, taking into account the Sovereign rating of a country, where these assets are located, and other information which management of the Company possesses.

Exposure at default

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

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

Forward-looking information and multiple economic scenarios

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

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

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

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Company credit ratings. The table below shows the credit quality by class of asset f in the statement of financial position, based on the Company's credit rating system for the year ended 31 December 2019.

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

21. Risk management (continued)

Credit risk (continued)

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

31 December 2018		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents	Stage 1	–	987,805	–	–	**987,805**
Investment securities	Stage 1	1,371,056	–	–	–	**1,371,056**
Trade and other receivables	Stage 1	–	10,150	50,699	–	**60,849**
Trade and other receivables	Stage 3	–	–	–	16,480	**16,480**
Total		**1,371,056**	**997,955**	**50,699**	**16,480**	**2,436,190**

Liquidity risk

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

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

The tables below summarize the maturity profile of the Company's financial liabilities as at 31 December 2019 and 2018 based on contractual undiscounted repayment obligations.

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

As at 31 December 2018	*Less than 3 months*	*3 to 6 months*	*6 to 12 months*	*Over 1 year*	*Total*
Trade and other payables	9,121	–	–	–	**9,121**
Advances received	912,974	–	–	–	**912,974**
Total undiscounted financial liabilities	**922,095**	**–**	**–**	**–**	**922,095**

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

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

21. Risk management (continued)

Geographical concentration

The geographical concentration of the Company's financial assets and liabilities as at 31 December 2019 and 2018 was as follows. The disclosure is based on in which countries the counterparties are situated.

	2019			*2018*		
	Azerbaijan	*CIS and non-OECD countries*	*Total*	*Azerbaijan*	*CIS and non-OECD countries*	*Total*
Assets						
Cash and cash equivalents	2,577,246	1,093,889	**3,671,135**	987,805	–	**987,805**
Investment securities	8,103,876	8,707	**8,112,583**	1,371,056	–	**1,371,056**
Trade and other receivables	25,632	–	**25,632**	77,329	–	**77,329**
Total financial assets	**10,706,754**	**1,102,596**	**11,809,350**	**2,436,190**	**–**	**2,436,190**
Liabilities						
Advances received	3,221,614	–	**3,221,614**	912,974	–	**912,974**
Borrowings under repurchase agreements	5,967,986	–	**5,967,986**	–	–	**–**
Lease liability	56,801	–	**56,801**	–	–	**–**
Trade and other payables	4,527	–	**4,527**	9,121	–	**9,121**
Total financial liabilities	**9,250,928**	**–**	**9,250,928**	**922,095**	**–**	**922,095**
Net position	**1,455,826**	**1,102,596**	**2,558,422**	**1,514,095**	**–**	**1,514,095**

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud and external events. When control fails to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Company cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risk could be effective tools to manage the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

Market risk

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

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

Interest rate risk

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

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

21. Risk management (continued)

Market risk (continued)

Price risk

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

on its statement of financial position and statement of cash flows. The Company does not have any formal procedures on managing currency risk, however, management is quite well informed on the tendencies in the economy and has undertaken steps to minimize its currency risks. Management does not hedge the Company's foreign exchange risk.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates

The tables below indicates the currencies to which the Company had significant exposure at 31 December 2019 and 2018 on its non-trading financial assets and liabilities and its forecast cash flows.

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

	2019				***2018***			
	AZN	***USD***	***Other***	***Total***	***AZN***	***USD***	***Other***	***Total***
Assets								
Cash and cash equivalents	256,999	3,398,089	16,047	**3,671,135**	37,123	950,682	–	**987,805**
Investment securities	8,103,876	8,707	–	**8,112,583**	1,371,056	–	–	**1,371,056**
Trade and other receivables	25,632	–	–	**25,632**	77,329	–	–	**77,329**
Total financial assets	**8,386,507**	**3,406,796**	**16,047**	**11,809,350**	**1,485,508**	**950,682**	**–**	**2,436,190**
Advances received	–	3,221,614	–	**3,221,614**	–	912,974	–	**912,974**
Borrowings under repurchase agreements	5,967,986	–	–	**5,967,986**	–	–	–	**–**
Lease liability	56,801	–	–	**56,801**	–	–	–	**–**
Trade and other payables	4,527	–	–	**4,527**	9,121	–	–	**9,121**
Total financial liabilities	**6,029,314**	**3,221,614**	**–**	**9,250,928**	**9,121**	**912,974**	**–**	**922,095**
Net financial position	**2,357,193**	**185,182**	**16,047**	**2,558,422**	**1,476,387**	**37,708**	**–**	**1,514,095**

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

	2019		***2018***	
	USD/AZN (+10%)	***USD/AZN(-3%)***	***USD/AZN (+14%)***	***USD/AZN-3%***
Effect on profit before tax	18,518	(5,555)	5,279	(1,131)

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

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

22. Fair value measurements

Fair value hierarchy

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

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

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

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

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

31 December 2018	***Date of valuation***	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value					
Investment securities – at FVOCI	31 December 2018	−	−	−	**−**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2018	987,805	−	−	**987,805**
Investment securities measured at amortised cost	31 December 2018	−	1,371,056	−	**1,371,056**
Trade and other receivables	31 December 2018	−	−	77,329	**77,329**
Liabilities for which fair values are disclosed					
Advances received	31 December 2018	−	−	912,974	**912,974**
Trade and other payables	31 December 2018	−	−	9,121	**9,121**

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

The fair value of financial assets and liabilities not carried at fair value approximate their carrying amounts as at 31 December 2019 and 2018.

Valuation techniques and assumptions

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

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

22. Fair value measurements (continued)

Fair value of financial assets and liabilities not carried at fair value (continued)

Assets for which fair value approximates carrying value

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

Financial assets and financial liabilities carried at amortized cost

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

Investment securities

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

23. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 21 Risk Management for the Company's contractual undiscounted repayment obligations.

	31 December 2019			***31 December 2018***		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Assets						
Cash and cash equivalents	3,671,135	–	**3,671,135**	987,805	–	**987,805**
Investment securities	1,959,476	6,153,107	**8,112,583**	1,324,022	47,034	**1,371,056**
Trade and other receivables	25,632	–	**25,632**	77,329	–	**77,329**
Property and equipment	–	47,459	**47,459**	–	–	**–**
Intangible assets	–	67,750	**67,750**	–	62,750	**62,750**
Right-of-use asset	39,025	16,260	**55,285**	–	–	**–**
Deferred income tax assets	–	–	**–**	–	8,505	**8,505**
Prepayments	–	29,696	**29,696**	67,300	23,150	**90,450**
Total assets	**5,695,268**	**6,314,272**	**12,009,540**	**2,456,456**	**141,439**	**2,597,895**
Liabilities						
Advances received	3,221,614	–	**3,221,614**	912,974	–	**912,974**
Borrowings under repurchase agreements	5,967,986	–	**5,967,986**	–	–	**–**
Lease liability	39,291	17,510	**56,801**	–	–	**–**
Current income tax liabilities	118,643	–	**118,643**	48,648	–	**48,648**
Deferred income tax liabilities	–	33,653	**33,653**	–	–	**–**
Deferred revenue	–	–	**–**	55,672	–	**55,672**
Trade and other payables	102,330	–	**102,330**	53,104	–	**53,104**
Total liabilities	**9,449,864**	**51,163**	**9,501,027**	**1,070,398**	**–**	**1,070,398**
Net position	**(3,754,596)**	**6,263,109**	**2,508,513**	**1,386,058**	**141,439**	**1,527,497**

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

23. Maturity analysis of assets and liabilities (continued)

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

24. Related party transactions

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

	31 December 2019				*31 December 2018*			
	Share-holder / ultimate owners	*Entities under common control*	*Other*	*Total*	*Share-holder / ultimate owners*	*Entities under common control*	*Other*	*Total*
Assets								
Cash and cash equivalents	–	2,577,245	–	**2,577,245**	–	987,805	–	**987,805**
Trade and other receivables	58	15,033	–	**15,091**	–	–	–	**–**
Total assets	**58**	**2,592,278**	**–**	**2,592,336**	**–**	**987,805**	**–**	**987,805**
Advances received	–	–	635,408	**635,408**	–	–	718,961	**718,961**
Borrowings under repurchase agreements	1,000,236	–	–	**1,000,236**	–	–	–	**–**
Total liabilities	**1,000,236**	**–**	**635,408**	**1,635,644**	**–**	**–**	**718,961**	**718,961**
Interest revenue calculated using effective interest rate	–	4,432	–	**4,432**	–	–	–	**–**
Interest expense on borrowings under repurchase agreements	(52,983)	(91,247)	(30,074)	**(174,304)**	–	–	–	**–**
Fee and commission income	6,084	512,178	473	**518,735**	–	–	629,137	**629,137**
Net gains on dealing with debt securities	–	327,563	10,415	**337,978**	–	–	–	**–**
Personnel expenses	–	(1,303)	–	**(1,303)**	–	–	–	**–**
Other operating and administrative expenses	–	(10,080)	–	**(10,080)**	–	–	(4,761)	**(4,761)**
Credit loss expense	(2)	(678)	–	**(680)**	–	–	–	**–**
Net gain from foreign currency translation differences	–	59	–	**59**	–	–	–	**–**
Total income/ (expenses)	**(46,901)**	**740,924**	**(19,186)**	**674,837**	**–**	**–**	**624,376**	**624,376**

Compensation of key management personnel that consisted of 2 members (2018: 2 members) comprises:

	For the year ended 31 December	
	2019	***2018***
Salaries and other short-term benefits	75,535	28,550
Social security costs	11,988	6,281
Key management personnel compensation	**87,523**	**34,831**

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

25. Changes in liabilities arising from financing activities

	Note	*Borrowings under repurchase agreements*
Carrying amount at 31 December 2017		–
Proceeds from issue		4,419,778
Redemption		(4,419,778)
Other		–
Carrying amount at 31 December 2018	12	–
Proceeds from issue		273,673,680
Redemption		(267,714,180)
Other		8,486
Carrying amount at 31 December 2019	12	**5,967,986**

26. Subsequent events

In light of the recent rapid development of the coronavirus (COVID-19) pandemic, many countries, including the Republic of Azerbaijan, introduced quarantine measures which had significant impact on the level and scale of business activity of market participants. It is expected that both the pandemic itself and measures to minimize its consequences can affect the operations of companies from various industries. The Company considers this pandemic as a non-adjusting event after the reporting period, the quantitative effect of which cannot be estimated reasonably certain at the current date.

There has been significant volatility in the stock, currency and commodity markets since March 2020, including declining oil prices. As a response to this development, in March 2020 the President of the Republic of Azerbaijan signed a decree for action plans to minimize the impact of the pandemic. In accordance with this decree, anti-crisis stimulus package of AZN 2.5 billion is being developed to support individuals and various businesses in the country. The Central Bank of the Republic of Azerbaijan continues its monetary policy to ensure stability of AZN exchange rates. Currently, the Company’s management is analysing potential impact of changing micro and macro-economic conditions on the financial position and performance of the Company.