“AzFinance Investment Company” CJSC

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor’s Report

31 December 2019

Contents

Independent auditor's report

To the Shareholders and Management of "AzFinance Investment Company" Closed Joint Stock Company:

Our qualified opinion

In our opinion, except for the effect of the matter described in the Basis for qualified opinion section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of "AzFinance Investment Company" Closed Joint Stock Company and its subsidiary (together "the Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for qualified opinion

Contrary to the requirements of IAS 24, 'Related party disclosures', the Group has not disclosed the name of its ultimate controlling party in the accompanying financial statements. Further, in accordance with ISA 705 p23(c) we have not disclosed the identity of the ultimate controlling party in our audit report as we are prevented from doing so by the Personal Data Law dated 11 April 2010 which exists in the Republic of Azerbaijan.

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 consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan

06 August 2020

"AzFinance Investment Company" CJSC
Consolidated Statement of Financial Position

In Azerbaijani Manats	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	13	789,791	246,539
Cash at trading account		4,516	5,708,434
Investments in debt securities	11	266,903	58,907,905
Investments in equity securities	12	615,192	559,301
Trade and other receivables	10	267,484	1,270,893
Current income tax prepayment		-	64,375
Deferred income tax assets	17	55,862	-
Property and equipment	8	99,426	67,055
Intangible assets	9	201,859	45,345
TOTAL ASSETS		**2,301,033**	**66,869,847**
LIABILITIES			
Due to customers		-	64,871,778
Other liabilities	14	253,219	305,132
Current income tax payable	17	134,088	-
Deferred income tax liability		-	40,370
TOTAL LIABILITIES		**387,307**	**65,217,280**
EQUITY			
Charter capital		1,550,000	1,550,000
Paid-in capital		612,175	612,175
Accumulated deficit		(248,799)	(510,151)
Equity attributable to the Group's owners		**1,913,376**	**1,652,024**
Non-controlling interest		**350**	**543**
TOTAL EQUITY		**1,913,726**	**1,652,567**
TOTAL LIABILITIES AND EQUITY		**2,301,033**	**66,869,847**

Approved for issue and signed on 6 August 2020.

Intigam Safaraliyev
Director

Farid Mammadov
Deputy Director/ Interim Chief Accountant

In Azerbaijani Manats	**Note**	**2019**	**2018**
Revenue			
Revenue from asset management	15	1,031,184	1,748,814
Revenue from brokerage operations		589,568	668,387
Other Revenue		227,828	687,744
Total Revenue		**1,848,580**	**3,104,945**
Expenses			
Staff cost		(964,930)	(1,726,820)
Commission expense		(136,247)	(116,274)
Other operating expenses	16	(510,169)	(911,624)
Other gains/(losses) – net		126,650	-
Other income		17,554	46,056
Operating profit/(loss)		**381,438**	**396,283**
Finance cost	14	(18,048)	-
Profit before income tax		**363,390**	**396,283**
Income tax expense	17	(102,231)	(67,907)
PROFIT FOR THE YEAR		**261,159**	**328,376**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**261,159**	**328,376**
Total comprehensive income / (loss) is attributable to:			
- Owners of the Group		261,352	328,569
- Non-controlling interest		(193)	(193)
Total comprehensive income for the year		**261,159**	**328,376**

"AzFinance Investment Company" CJSC
Consolidated Statement of Changes in Equity

In Azerbaijani Manats	Share capital	Paid-in Capital	Accumulated deficit	Total	Non-controlling interest	Total equity
At 1 January 2018	**1,550,000**	**612,175**	**(838,720)**	**1,323,455**	**736**	**1,324,191**
Total comprehensive income for the year	-	-	328,569	**328,569**	(193)	**328,376**
Balance at 31 December 2018	**1,550,000**	**612,175**	**(510,151)**	**1,652,024**	**543**	**1,652,567**
Total comprehensive income for the year			261,352	**261,352**	(193)	**261,159**
Balance at 31 December 2019	**1,550,000**	**612,175**	(248,799)	**1,913,376**	**350**	**1,913,726**

The accompanying notes on pages 5 to 29 are an integral part of these consolidated financial statements.

In Azerbaijani Manats	Note	2019	2018
Cash flows from operating activities			
Profit before income tax		363,390	396,283
Adjustments for:			
Depreciation and impairment of property and equipment	8	135,328	13,389
Amortisation and impairment of other intangible assets	9	5,369	4,575
Gains less losses on equity securities		(55,891)	-
Foreign exchange translation differences		-	364
Finance costs		18,048	-
Losses less gains on disposals of property and equipment		(13,746)	-
Operating cash flows before working capital changes		**452,498**	**414,611**
Changes in cash at brokerage account		(4,289)	(5,277,346)
Changes in investment in debt securities		(266,903)	(15,199,102)
Changes in investment in equity securities		-	2,529,423
Changes in trade and other receivables		1,003,409	(910,402)
Changes in trade and other payables		(376,386)	17,651,898
Changes in working capital			
Income taxes paid	17	-	(77,609)
Finance cost paid		(18,048)	
Net cash used in operating activities		**790,281**	**(868,527)**
Cash flows from investing activities			
Purchases of property and equipment		(4,640)	(22,357)
Internally developed software	9	(161,883)	-
Proceeds from disposal of property and equipment		30,000	
Net cash from investing activities		**(136,523)**	**(22,357)**
Cash flows from financing activities			
Repayment of lease liabilities: principal		(110,506)	-
Net cash from financing activities		**(110,506)**	**-**
Cash and cash equivalents at the beginning of the year		**246,539**	**1,137,423**
Cash and cash equivalents at the end of the year	13	**789,791**	**246,539**

1 The Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2019 for "AzFinance Investment Company" Closed Joint Stock Company and its subsidiary (the "Group").

The Group was incorporated and is domiciled in the Republic of Azerbaijan on 30 January 2014. The Group is a closed joint stock company and was set up in accordance with Azerbaijani regulations.

As of 31 December 2019 the Group's shareholder was "G Capital Middle East limited".

Principal activity. The Group's principal business activity is brokerage, asset management, consulting and underwriting operations. The Group is operating within the Republic of Azerbaijan and mainly deals with the securities issued within the Republic of Azerbaijan. However, the Group also trades on the foreign market.

As at 31 December 2019 "AzFinance Investment Company" Closed Joint Stock Company owned 99% in its subsidiary AzFinance Asset Management Limited Liability Company.

The Group had 23 employees as at 31 December, 2019 (31 December 2018: 27 employees).

Registered address and place of business. The Group's registered address and principal place of business is Nariman Narimanov avenue 206, Block 466, Baku, the Republic of Azerbaijan.

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

2 Operating Environment of the Group

The Republic of Azerbaijan displays certain characteristics of an emerging market. Current and future growth and stability of the economy is largely dependent upon the effective implementation of economic, fiscal and monetary measures undertaken by government as well as crude oil prices and stability of Azerbaijani manats.

Following the sharp economic contraction in 2016 due to negative impact of the decline in oil prices and devaluations of national currency against major international currencies, the government accelerated reforms in support of long-term economic stability and sustainability. Based on the economic reforms involving institutional changes, inflation was stable at a low single-digit rate, the economic growth remained positively zoned, the exchange rate of the national currency was sustainable and positive trends emerged in the foreign sector.

Despite a number of ongoing fragilities in the systemic risks, the banking sector stability was safeguarded in parallel with lending recovery. The implementation of the Presidential Decree on "Additional measures on resolving problem loans of individuals" has led to compensation of individuals and restructuring of defaulted loans of individuals helped to improve bad loan problem in the banking sector.

The international rating agencies have maintained credit ratings of Azerbaijan during 2019 with stable outlook. In July, Moody's has upgraded the outlook of Azerbaijan's banking system from stable to positive and the agency affirms that Azerbaijan's growing economy and the high level of state support contributed the most to the positive forecast on the country's banking system. According to World Bank's Doing Business report 2020, Azerbaijan improved its position in the Ease of doing business rank to 34.

The Company's Management is monitoring these developments in the current environment and taking precautionary measures as it considers necessary in order to ensure the sustainability and development of the Company's business in the foreseeable future. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

3 Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by initial recognition of financial instruments based on fair value and financial instruments categorised at fair value through profit or loss ("FVTPL"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated. (refer to Notes 0)

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

Consolidated financial statements. Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition of and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Group and its subsidiary, and the Group's presentation currency, is the national currency of the Republic of Azerbaijan, Azerbaijani Manats ("AZN"). The consolidated financial statements are presented in Azerbaijani Manats ("AZN"), which is the Group's presentation currency.

3 Significant Accounting Policies (Continued)

Transactions and balances. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of Azerbaijan ("CBAR") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the CBAR are recognised in profit or loss. Translation at period-end rates does not apply to non-monetary items. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2019 and 2018, the principal rates of exchange used for translating foreign currency balances were as follows:

Currency	2019	2018
USD	1,7000	1,7000
RR	0,0274	0.0245
EURO	1,9035	1,9468

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.

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.

Depreciation. 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
Computers and office equipment	4
Vehicles	4
Other	5

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

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

Intangible assets. The Group's intangible assets primarily include capitalised computer software. Acquired computer software licences are capitalised based on the costs incurred to acquire and bring them to use. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 10 years.

Financial instruments – key measurement terms. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

3 Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 20.

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

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses *("ECL")*.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

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

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories:

(a) Financial assets measured at fair value through profit or loss (FVPL), showing separately those mandatorily classified and those designated upon initial recognition.

(b) Financial assets measured at amortised cost (AC).

(c) Financial assets measured at fair value through other comprehensive income (FVOCI).

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

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

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include Group's strategy, the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how the assets' performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Group in determining the business models for its financial assets.

3 Significant Accounting Policies (Continued)

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The Group applies a three-stage model for impairment, based on changes in credit quality since initial recognition. IFRS 9 allows to use practical expedient in staging approach, where non-defaulted assets are classified to Stage 2. Thus, financial assets are classified to either Stage 2 (when a given asset may be treated as non-defaulted) or Stage 3 (when the conditions of default are met), as a result of both stages provisioned in lifetime perspective. The Group incorporated Transition Matrix and forward looking information in external assigned PD ratings. The Group's definition of credit impaired assets and definition of default is explained in Note 18.

Financial assets – derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities – measurement categories. The Group classifies financial liabilities in the following measurement categories:

(a) Financial liabilities measured at FVPL, showing those that meet the definition of held for trading and those designated upon initial recognition.

(b) Financial liabilities measured at amortised cost.

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

Financial liabilities designated at FVTPL. The Group may designate certain liabilities at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss except for the amount of change in the fair value that is attributable to changes in the credit risk of that liability (determined as the amount that is not attributable to changes in market conditions that give rise to market risk), which is recorded in OCI and is not subsequently reclassified to profit or loss. This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in credit risk of the liability are also presented in profit or loss.

Cash and cash equivalents. Cash and cash equivalents are short-term items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL

Cash at trading account. Cash at trading account accounts represent cash held in National Deposit Center. Cash at trading account is used for settlement of purchases and sales of securities on stock market.

Assets under management ("AUM") – Includes assets beneficially owned by clients or customers which the Group holds in various capacities that are either actively or passively managed. These assets could take form of debt securities, equity securities or cash at brokerage accounts.

3 Significant Accounting Policies (Continued)

These assets are not on the Group's statement of financial position. Assets under management are measured at FVTPL.During 2019 year, AZN 44,954,142 and AZN 24,096,583 Equity securities under asset management were purchased and traded respectively. Movement of Debt securities totalled for AZN 554,078,082 purchased securities and AZN 482,198,857 traded assets under management in 2019. The Group earns performance and fixed management fee under AUM contracts, description of which is provided in "revenue" paragraph below.

The table below discloses investments in debt securities by classes as at 31 December 2019. All of these investments are debt securities.

In Azerbaijani Manats	**31 December 2019**
Debt securities	*125,369,838*
Cash at Brokerage Account	*267,906*
Total investments in debt securities	**125,637,744**

Yield to maturities of Bonds of Ministry of Finance of Azerbaijan Republic vary from 7.63% to 9.34% according to time to maturity.

Trading investments as at 31 December 2019 are presented as follows:

In Azerbaijani Manats	**31 December 2019**
Bonds of Ministry of Finance of Azerbaijan Republic	*50,274,132*
Notes of Central Bank of Azerbaijan Republic	*73,813,530*
Corporate bonds	*1,282,177*
Total investments in debt securities	**125,369,838**

Most of the bonds held by the Group are bonds of Ministry of Finance of Azerbaijan Republic which are government guaranteed bonds. Corporate bonds also have a guarantee from the bank.

In Azerbaijani Manats	**31 December 2019**
Equity securities	24,309
Total investments in equity securities	**24,309**

All of the equity securities are corporate shares and represent securities held for trading.

Debt securities at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents Group's maximum exposure to credit risk. Most of the bonds held by the Group are bonds of Ministry of Finance of Azerbaijan Republic which are government guaranteed bonds. Corporate bonds also have a guarantee from the bank. The Group`s own debt securities at FVTPL in the amount of AZN 266,903 represent shares of companies located in the Republic of Azerbaijan or Government institutions.

Equity securities at FVTPL are corporate shares, securities held for trading and other equity securities for which FVOCI election was not made on initial recognition.

Due to customers. Due to customers are recognised for asset management contracts and arise at the moment when the counterparty transfers portfolio of assets which may consist from securities or/and cash to the Group for asset management services. The agreement with the customer includes minimum rate of return and floating performance obligations, which are dependent on the performance of the portfolio transferred to Group. Due to customer balances comprise of both corporate and individual clients, where corporate clients constituted 96% in 2018.

3 Significant Accounting Policies (Continued)

Trade and other receivables. Trade and other receivables are recognised for receivables from brokerage operations and amounts due from customers for which asset management services are performed by the Group. Trade and other receivables are recognised initially at fair value and are subsequently carried at amortised cost using the effective interest method.

Other liabilities. Other liabilities are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

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

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

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

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

Charter Capital. The Group's charter capital is comprised of the charter capital as stipulated in the statutory charter document.

Paid-in Capital. The Group's paid-in capital is comprised of cash contribution which has been originally provided to the Group in form of a loan from the shareholder with subsequent tranches with the purpose of financing Group operating activities. However, shareholder directed these funds towards Group's capital and has no further claims on the amount. As of reporting period the amount is not registered as part of charter capital.

Revenue recognition. Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised services to a customer, excluding the amounts collected on behalf of third parties.

Revenue from Asset Management. The Group provides asset management services where the Group receives a portfolio of securities and/or cash from the customers which are managed for a duration of 1-3 years. Revenue from provision of asset management services are divided into two parts.

1) Management fee. Management fee is the pre-agreed fixed rate at which the Group is managing the portfolio. Management fees are calculated on a monthly basis and are earned by the Group over a period of time. Management fees are typically subject to fee schedules based on the overall level of assets managed for a single client or by individual asset class and style.

2) Performance fee. Performance fee is the variable consideration which is based on the performance of the portfolio received for asset management from the customer. Performance fees are generally calculated as a percentage of a portfolio's performance in excess of a benchmark index or a peer group's performance. A key driver of organic growth in performance fees is the amount of net new AUM flows. Overall market conditions are also key drivers, with a significant long-term economic driver being growth of global financial assets.

3 Significant Accounting Policies (Continued)

3) Revenue is recognized when, or as, a performance obligation is satisfied by transferring control of a good or service to a customer. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized by measuring the progress in satisfying the performance obligation in a manner that reflects the transfer of goods and services to the customer. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time the customer obtains control of the promised good or service.

4) Performance fees are recognized in the period in which the performance fees are earned and become determinable. Performance fees are constrained until all uncertainties are resolved and reversal of previously recorded amounts is not probable. When a portfolio underperforms its benchmark or fails to generate positive performance, subsequent years' performance must generally exceed this shortfall prior to fees being earned.

Refer to Note 15 for the allocation of performance obligation over revenue between overtime and at a point in time

Revenue from Brokerage operations. The Group provides a brokerage services to the counterparties, by acting as an agent, in arranging the purchases and sales of the securities on behalf of the counterparties. Revenue from Brokerage operations calculated as a percentage of the amount of deal and is earned at a point in time. Revenue from Brokerage operations includes mark-up on the services performed only and is presented as a net off commission expenses.

Accounting for leases by the Group as a lessee from 1 January 2019.

Lease liabilities. Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Extension option is included in the lease of property of the Group. These terms are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. Extension option is only included in the lease term if the lease is reasonably certain to be extended. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using incremental borrowing rate of 7.84% Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets. The Group leases office property. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Assets arising from a lease are initially measured on a present value basis. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over 2 years.

3 Significant Accounting Policies (Continued)

Accounting for operating leases by the Group as a lessee prior to 1 January 2019. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease. Operating lease included lease of office premises.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Group assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group's control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

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

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

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

Determining lease term. The Group leases office premise from third parties under contracts which have contractual maturity dates and are automatically renewed unless either party submits a termination notice of 3 months The Group determines non-cancellable lease period for such leases, taking into consideration penalties that would be incurred upon termination, including economic disincentives such as leasehold improvements, cost of relocating or the importance of the premises to the Group's operations. As a result, the lease term for the office premise has been determined as a period of 2 years.

Deferred income tax asset recognition. The recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium-term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 16, Leases. The Group has adopted IFRS 16 retrospectively from 1 January 2019 with certain simplifications and exemptions and has not restated comparatives for the 2018 reporting period, as permitted under the transitional provisions of IFRS 16. The reclassifications and the adjustments arising from the new leasing requirements are therefore recognised as an adjustment to the opening balance of retained earnings as of 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7.84%

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease. The following table presents reconciliation of the operating lease commitments reported as of 31 December 2018 and lease liability recognised at 1 January 2019:

	1 January 2019
Total future minimum lease payments for operating leases as at 31 December 2018	**259,200**
Effect of discounting to present value	(20,025)
Lease liability recognised as at 1 January 2019	**239,175**
Advances paid to lessors	-
Right-of-use asset recognised as at 1 January 2019	**239,175**

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

	Impact of adopting IFRS 16
Increase in right-of-use assets	**239,175**
Increase in lease liabilities	**239,175**

The associated right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The total lease repayment during 2019 is 124,800 AZN.

5 Adoption of New or Revised Standards and Interpretations (Continued)

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019	1 January 2019
Property lease	239,175	64,182
Total right-of-use assets	**239,175**	**64,182**

Property lease arrangement is denominated in AZN. The recognised lease liabilities classified as follows:

	31 December 2019	1 January 2019
Current portion	69,033	170,142
Non-current portion	-	69,033
Total lease liabilities	**69,033**	**239,175**

Amendment to IAS 12, Income Taxes, included in the Annual Improvements to IFRSs 2015-2017 cycle. The Group adopted the changes to IAS 12, *Income Taxes*, with effect from 1 January 2019. As a result of these amendments, the tax benefits of distributions on perpetual instruments that are classified as equity under IFRS but are considered as liabilities for tax purposes are no longer recognised directly in equity but in profit or loss because these tax benefits are linked more directly to past transactions or events that generated distributable profits than to the distributions to owners. The following amended standards became effective from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual
  periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

6 New Accounting Pronouncements (Continued)

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Balances and Transactions with Related Parties

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

At 31 December 2019 and 31 December 2018, the outstanding balances with related parties were as follows:

		31 December 2019	31 December 2018
In Azerbaijani Manats	**Note**	**Entities under common control**	**Entities under common control**
Trade and other receivables	10	-	16,078

The income and expense items with related parties for the year ended 31 December 2019 and 31 December 2018 were as follows:

	2019	2018
In Azerbaijani Manats	**Entities under common control**	**Entities under common control**
Revenue from brokerage operations	-	21,115
Other operating expenses	-	152,928
Other Revenue	-	362,996

Key management compensation. Key management includes Director and Deputy Directors.

Key management compensation is presented below:

	2019		2018	
In Azerbaijani Manats	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	295,910	11,699	500,947	-
- Short term bonuses	-	-	500,639	-
Total key management compensation	**295,910**	**11,699**	**1,001,586**	**-**

8 Property and Equipment

In Azerbaijani Manats	Right of use asset	Computers and other devices	Vehicles	Other	Total
Cost at 1 January 2018	-	12,846	62,500	10,188	85,534
Accumulated depreciation	-	(2,760)	(36,133)	(5,834)	(44,727)
Carrying amount at 1 January 2018	**-**	**10,086**	**26,367**	**4,354**	**40,807**
Additions	239,175	20,497	-	19,140	278,812
Depreciation charge	-	(5,624)	(6,592)	(1,174)	(13,390)
Carrying amount at 31 December 2018	**239,175**	**24,959**	**19,775**	**22,320**	**306,229**
Cost at 1 January 2019	-	33,343	62,500	29,328	125,171
Accumulated depreciation	-	(8,384)	(42,725)	(7,008)	(58,117)
Carrying amount at 1 January 2019	**239,175**	**24,959**	**19,775**	**22,320**	**306,229**
Additions	-	1,430	-	3,210	4,640
Disposals	-	-	(62,500)	-	(62,500)
Accumulated depreciation for disposed assets	-	-	46,021	-	46,021
Modification in ROUA	(59,636)	-	-	-	(59,636)
Depreciation charge	(115,356)	(6,418)	(3,296)	(10,258)	(135,328)
Carrying amount at 31 December 2019	**64,183**	**19,971**	**-**	**15,272**	**99,426**
Cost at 31 December 2019	-	34,773	-	32,538	67,311
Accumulated depreciation	-	(14,802)	-	(17,266)	(32,068)
Carrying amount at 31 December 2019	**64,183**	**19,971**	**-**	**15,272**	**99,426**

The Group leases the office. Rental agreement is typically made for fixed periods but may have extension options.

Contract may contain only lease components. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until 31 December 2018 lease was classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

8 Property and Equipment (Continued)

As at 31 December 2019, potential future cash outflows of AZN 144 thousand (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended for two more years from the current estimated lease end date.

The lease term is reassessed if an option is actually exercised or the Group becomes obliged to exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

9 Intangible Assets

In Azerbaijani Manats	Internally developed software	Acquired licences	Other	Total
Cost at 1 January 2018	-	2,750	63,573	66,323
Accumulated amortisation	-	(745)	(16,260)	(17,005)
Carrying amount at 1 January 2018	**-**	**2,005**	**47,313**	**49,318**
Additions	-	-	602	602
Amortisation charge	-	(201)	(4,374)	(4,575)
Carrying amount at 31 December 2018	**-**	**1,804**	**43,541**	**45,345**
Cost at 31 December 2018	-	2,750	64,175	66,925
Accumulated amortisation	-	(946)	(20,634)	(21,580)
Carrying amount at 31 December 2018	**-**	**1,804**	**43,541**	**45,345**
Additions	161,883	-	-	161,883
Amortisation charge	-	(180)	(5,189)	(5,369)
Carrying amount at 31 December 2019	**161,883**	**1,624**	**38,352**	**201,859**
Cost at 31 December 2019	161,883	2,750	64,175	228,808
Accumulated amortisation	-	(1,126)	(25,823)	(26,949)
Carrying amount at 31 December 2019	**161,883**	**1,624**	**38,352**	**201,859**

The Company has internally developed "AFI trader" operating software. The software was put in use at the end of 2019 and was capitalised for the amount of salary of Company's employees directly engaged in development process. Intangible asset was determined useful for 10 years period.

10 Trade and other receivables

In Azerbaijani Manats	31 December 2019	31 December 2018
Trade receivables from brokerage operations	133,457	181,831
Trade receivables from Asset under management	75,454	1,006,474
Less credit loss allowance	-	-
Total financial assets within trade and other receivables	**208,911**	**1,188,305**
Other receivables	28,036	82,588
Prepayments	30,537	-
Less impairment provision	-	-
Total trade and other receivables	**267,484**	**1,270,893**

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for financial assets within trade and other receivables. The calculated expected credit loss is immaterial. For further details refer to Note 18.

11 Investments in Debt Securities

The table below discloses investments in debt securities by classes as at 31 December 2019. All of these investments are debt securities mandatorily measured at FVTPL.

Trading investments as at 31 December 2019 and 01 January 2019 are presented as follows:

In Azerbaijani Manats	31 December 2019	31 December 2018
Bonds of Ministry of Finance of Azerbaijan Republic	243,894	47,370,001
Notes of Central Bank of Azerbaijan Republic	-	8,451,919
Corporate bonds	23,009	3,085,985
Total investments in debt securities	**266,903**	**58,907,905**

Yield to maturities of Bonds of Ministry of Finance of Azerbaijan Republic vary from 7.63% to 9.34% according to time to maturity.

Debt securities mandatorily classified as at FVTPL by the Group represent securities held for trading and securities in a "residual" business model. Debt securities at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents Group's maximum exposure to credit risk.

Most of the bonds held by the Group are bonds of Ministry of Finance of Azerbaijan Republic which are government guaranteed bonds. Corporate bonds also have a guarantee from the bank.

For the disclosure on measurement categories and classes for investments in debt securities refer to Note 21. For currency risk and other credit risk disclosures refer to Note 18.

Financial assets designated at fair value through profit or loss are carried at fair value which also reflects any credit risk related write-downs. As the financial assets are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators.

11 Investments in Debt Securities (Continued)

Analysis by credit quality of debt securities designated at fair value through profit or loss outstanding at 31 December 2019 is as follows:

In Azerbaijani Manats	Azerbaijan government bonds	Corporate bonds	Total
Neither past due nor impaired (at fair value)			
- Lower than A- rated	243,894		243,894
- Unrated	-	23,099	23,099
Total neither past due nor impaired	**243,894**	**23,099**	**266,903**

12 Investments in Equity Securities

In Azerbaijani Manats	31 December 2019	31 December 2018
Equity securities at FVTPL	615,192	559,301
Total investments in equity securities	**615,192**	**559,301**

All of the equity securities at FVTPL are corporate shares and represent securities held for trading and other equity securities for which FVOCI election was not made on initial recognition.

For the disclosure on measurement categories for investments in equity securities refer to Note 21. For currency risk and other credit risk disclosures refer to Note 18.

13 Cash and Cash Equivalents

In Azerbaijani Manats	31 December 2019	31 December 2018
Cash on hand	231,484	176,045
Bank balances payable on demand	558,307	70,494
Total cash and cash equivalents	**789,791**	**246,539**

In Azerbaijani Manats	31 December 2019	31 December 2018
AZN denominated bank balances	558,299	70,078
USD denominated bank balances	2	416
EUR denominated bank balances	6	-
Total bank balances	**558,307**	**70,494**

13 Cash and Cash Equivalents (Continued)

The credit quality of cash and cash equivalents balances may be summarised based on Fitch's rating as follows:

In Azerbaijani Manats	**31 December 2019 Bank balances payable on demand**	**31 December 2018 Bank balances payable on demand**
- Good	242	48
- Satisfactory	552,143	4,532
- Unrated	5,922	65,914
Total cash and cash equivalents, excluding cash on hand	**558,307**	**70,494**

14 Other Liabilities

In Azerbaijani Manats	**2019**	**2018**
Trade payables	-	64,871,778
Total financial payables within trade and other payables	**-**	**64,871,778**
Lease liability	69,033	-
Accrued employee costs	51,121	-
Other payables	133,065	305,132
Other liabilities	**253,219**	**65,176,910**

Total cash outflow for leases in 2019 was AZN 124,800. Lease expense for the period amounted to AZN 14,294. For the detailed understanding of trade payables refer to the Note 3.

15 Analysis of Revenue by Category

Timing of revenue recognition (for each revenue stream) is as follows:

In Azerbaijani Manats	**2019**	**2018**
At a point in time	1,520,644	2,997,839
Over time	327,936	107,106
Total revenue	**1,848,580**	**3,104,945**

15 Analysis of Revenue by Category (Continued)

Analysis of "other revenue" by category under revenue recognition guidance effective from 1 January 2018:

In Azerbaijani Manats	**2019**	**2018**
Revenue from foreign market operations	178,196	282,621
Revenue from other services	29,905	-
Consulting revenue	19,727	42,127
Penalty fee	-	362,996
Total other revenue	**227,828**	**687,744**

16 Other Operating Expenses

In Azerbaijani Manats	**2019**	**2018**
Depreciation and amortization	140,697	17,964
Business Trip Expenses	95,090	142,425
Representation expense	70,471	132,624
Consulting and professional service fee	52,906	92,844
Office Expense	51,260	148,856
Rent expense	-	152,928
Bank Charges	23,037	22,617
Advertising Expenses	22,405	58,226
Maintenance and repair expense	21,436	17,724
Training expenses	5,018	19,250
Insurance expenses	3,533	18,589
Other Expenses	24,316	87,577
Total operating expenses	**510,169**	**911,624**

According to IFRS 16 Rent expense appears under depreciation expense of right of use assets and lease liability interest. Thus, decrease in Rent expense is due to increase in depreciation expense.

17 Income Taxes

The corporate income tax expense comprises:

In Azerbaijani Manats	**2019**	**2018**
Current tax charge	(183,908)	-
Prior year tax expense actualisation	(14,555)	-
Deferred income tax credit for the year	96,232	(67,933)
Income tax expense	**(102,231)**	**(67,933)**

Standard corporate income tax rate for companies (including banks) comprised 20% for 2019 and 2018. 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 is as follows:

17 Income Taxes (Continued)

In Azerbaijani Manats	2019	2018
Profit before income tax expense	**382,402**	**396,282**
Statutory tax rate	20%	20%
Income tax expense at the statutory rate	(76,480)	(79,256)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Impact of Non-deductible expenses	(11,196)	(66,286)
Under/over provision of current tax in prior years	(14,555)	77,609
Income tax expense	**(102,231)**	**(67,933)**

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

In Azerbaijani Manats	2017	Recognized in the statement of profit or loss and other comprehensive income	2018	Effect of IFRS 16 adoption as of 1 Jan 2019	Recognized in the statement of profit or loss and other comprehensive income	2019
Equipment	(5,087)	3,199	(1,888)	47,835	(61,673)	(15,726)
Intangible	-	-	-	-	(32,962)	(32,962)
Trade and other receivable	(32,280)	(146,839)	(179,119)	-	198,977	19,858
Other liabilities	97,133	19,187	116,320	(47,835)	(30,997)	37,488
Other	(32,229)	56,547	24,318		22,886	47,204
Deferred tax asset	**27,537**	**(67,906)**	**(40,369)**	**-**	**96,231**	**55,862**

Equipment and other liabilities lines respectively reflect the effect of IFRS 16 adoption.

18 Financial Risk Management

The risk management function within the Group is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

Operational risk. The risk of loss resulting from inadequate or failed internal processes, human factors and systems, breaches of technology and information systems, or from external events.

The Company has revisited its risk management policy during 2019 and is not exposed to risks for assets under management and such service is similar to fiduciary activities in nature.

Changes in terms and risk and rewards scheme of assets under management contracts.

During 2019 terms and conditions of 90% of contracts under asset management (AUM) have changed in the following manner:

- Introduction of fixed management fee in the amount of 1% of total portfolio under management calculated and payable by Customer on quarterly basis. (2018: In previous year remuneration for portfolios was entirely variable)

18 Financial Risk Management (Cotinued)

- Performance variable fee on managed portfolio was reduced from the previous split ratio 50%/ 50% between Azfinance and Client to 10%/90% respectively on the excess value of portfolio revenues at the end of contract date.

- Minimum required return is set as a benchmark now. Under new terms the market and credit risk on securities under AUM are on customers' end.

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies risk grades estimated by external international rating agencies (Standard & Poor's – "S&P", Fitch, Moody's). External credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default. Group's exposures fall within satisfactory grade, with corresponding PD interval of 3%-10%. Satisfactory is understood as moderate credit quality with a satisfactory credit risk.

Such ratings and the corresponding range of probabilities of default ("PD") are applied for the following financial instruments: *cash and cash equivalents, due from customers and trade and other receivables.*

External credit risk ratings are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies.

Staging. For account receivable portfolio, IFRS 9 allows to use practical expedient by classifying such non-defaulted assets to stage 2 and not to perform staging process.

Therefore, receivables are classified to either Stage 3 (when the conditions of default are met) or Stage 2 (when a given asset may be treated as non-defaulted) and thus always provisioned in lifetime perspective.

Default is defined at the single invoice level and recognized based on days past due. In case the invoice exceeds 90 days past due, it is treated as defaulted and then classified to Stage 3. Since standard business operating processes for accounts receivables in the Group do not include qualitative

assessment of the clients, no additional criteria are being considered. Given the above, client can go into default only after his payment becomes due, but not before that point.

Impairment losses on trade receivables is presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment.

Forward-looking information incorporated in the ECL models. Forward looking information is incorporated in the external rating assigned when migration matrix is used for ECL measurement.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

18 Financial Risk Management (Continued)

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency. The Group does not use any derivative instruments for speculative or hedging purpose. The main element in the Group's risk policy regarding foreign currency risk is that there is no conscious effort to take a trading position in any currency. Limited open positions occur as a natural consequence of business operations only. The Group uses every effort to match its assets and liabilities by currency.

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

	At 31 December 2019			At 31 December 2018		
In Azerbaijani Manats	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Azerbaijani Manats	1,649,305	-	1,649,305	64,241,182	(62,986,785)	1,254,397
US Dollars	2	-	2	2,349,376	(2,190,126)	159,250
EURO	6	-	6	-	-	-
Russian rubbles	-	-	-	19,926	-	19,926
Total	**1,649,313**	**-**	**1,649,313**	**66,610,484**	**(65,176,911)**	**1,433,573**

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

	At 31 December 2019		At 31 December 2018	
In Azerbaijani Manats	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US Dollar strengthening by 20% (2018: strengthening by [20]%)	-	-	31,850	-
US Dollar weakening by 20% (2018: weakening by [20]%)	-	-	(31,850)	-

Interest rate risk. The Group is not exposed to the effects of fluctuations in the prevailing levels of market interest rates.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds that can be predicted with a high level of certainty. Liquidity risk is managed by management which monitors monthly rolling forecasts of the Group's cash flows. The Group's liquidity portfolio comprises cash at trading account, due from customers, investments in debt securities (Note 11), investment in equity securities (Note 12), cash and cash equivalents (Note 13), trade and other receivables (Note 10). The Group monitors expected maturities and the resulting discounted expected liquidity gap as follows:

18 Financial Risk Management (Continued)

In Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Total
At 31 December 2019					
ASSETS					
Cash and cash equivalents	558,307		-	-	558,307
Trade receivables	-	208,911	-	-	208,911
Investment in debt securities	266,903				266,903
Investment in equity securities	615,192				615,192
LIABILITIES					
Lease liabilities			(69,033)		(69,033)
Net liquidity gap based on expected maturities	**1,440,402**	**208,911**	**(69,033)**	**-**	**1,580,280**
At 31 December 2018					
ASSETS					
Cash and cash equivalents	246,539				246,539
Cash at brokerage account	5,708,434				5,708,434
Trade receivables		1,188,305			1,188,305
Investment in debt securities	58,907,905				58,907,905
Investment in equity securities	559,301				559,301
LIABILITIES					
Due to customers	(3,952,543)	(41,920,639)	(7,256,695)	(11,741,901)	(64,871,778)
Other liabilities	(305,133)				(305,133)
Net liquidity gap based on expected maturities	**61,164,503**	**(40,732,334)**	**(7,256,695)**	**(11,741,901)**	**1,433,573**

The entire portfolio of trading securities is classified within demand and less than one month based on management's assessment of the portfolio's realizability. Change in the liquidity profile is driven by the change in the risk and rewards of funds under asset management contracts as described above.

19 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital that the Group managed as of 31 December 2019 was AZN 1,913,725 (2018: AZN 1,652,024).

The Group has complied with an externally imposed minimum capital requirment of AZN 300,000 in 2019.

20 Fair Value Disclosures

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

20 Fair Value Disclosures (Continued)

Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period:

The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	2019			2018		
In Azerbaijani Manats	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
FINANCIAL ASSETS						
Investments in debt securities						
- Bonds of Ministry of Finance of Azerbaijan Republic	-	-	-	-	55,821,920	55,821,920
- Corporate bonds	23,009	243,894	266,903	-	3,085,985	3,085,985
Investments in equity securities						
- Corporate shares	-	615,192	615,192	559,301	-	559,301
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS AT 31 DECEMBER	**23,009**	**859,086**	**882,095**	**559,301**	**58,907,905**	**59,467,206**
FINANCIAL LIABILITIES						
Other financial liabilities						
Other financial liabilities at FV	-	-	-	-	64,871,778	64,871,778
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS AT 31 DECEMBER	**-**	**-**	**-**	**-**	**64,871,778**	**64,871,778**

Cash and cash equivalents and trade receivables are financial assets not measured at fair value but for which fair value is disclosed. These financial statements line items are related to Level 1 and Level 3 in the fair value hierarchy respectively.

21 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

21 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2019 and 31 December 2018:

In Azerbaijani Manats	2019 FVTPL (mandatory)	2019 Amortised cost	2019 Total	2018 FVTPL (mandatory)	2018 Amortised cost	2018 Total
ASSETS						
Cash and cash equivalents	-	789,791	789,791	-	246,539	**246,539**
Cash at trading account	-	4,516	4,516	-	5,708,434	**5,708,434**
Investments in debt securities						
- Bonds of Ministry of Finance of Azerbaijan Republic	243,894	-	243,894	55,821,920	-	**55,821,920**
- Corporate bonds	23,009	-	23,009	3,085,985	-	**3,085,985**
Investments in equity securities						
- Corporate shares	615,192	-	615,192	559,301	-	**559,301**
Other financial assets:						
- Due from customers	-	-	-	-	1,006,474	**1,006,474**
- Trade and other receivables	-	267,484	267,484	-	264,419	**264,419**
TOTAL FINANCIAL ASSETS	**882,095**	**1,061,791**	**1,943,886**	**59,467,206**	**7,225,866**	**66,693,072**

22 Events after Reporting Period

Late in 2019, news first emerged from China about the COVID-19 (Coronavirus). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020, the virus spread globally. The Group considers this outbreak to be a non-adjusting post balance sheet event. The Group is currently unable to assess the full impact of COVID-19 virus on its future financial position and the results of operations. Stock markets have declined, and commodity prices are lower. On the other side, the lack of growth in oil demand and decline in global oil prices may directly impact the operating environment of the Group.

Nevertheless, there has been no major unusual change in customer portfolio except for one significant pre-mature withdrawals of funds under management. Remaining policies matured on contractual basis in due course. As a result of market responsiveness to the evolving situation on the stock market and economy overall some drop in brokerage activities is observed.