Embafinans NBCO CJSC

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2019

CONTENTS

Independent Auditor's Report

Financial Statements

Statement of Financial Position 1
Statement of Profit or Loss and Other Comprehensive Income 2
Statement of Changes in Equity 3
Statement of Cash Flows 4

Notes to the Financial Statements

1 Introduction 5
2 Operating Environment of the Company 5
3 Significant Accounting Policies 6
4 Critical Accounting Estimates and Judgements in Applying Accounting Policies 12
5 Adoption of New or Revised Standards and Interpretations 14
6 New Accounting Pronouncements 15
7 Cash and Cash Equivalents 16
8 Loans to Customers 16
9 Properties, Equipment and Intangible Assets 28
10 Right of Use Assets and Lease Liabilities 28
11 Other Assets 29
12 Debt Securities in Issue 30
13 Loans from Banks 30
14 Payables to Partners 30
15 Share Capital 31
16 Other Liabilities 31
17 Interest Income and Expense 31
18 Fee and Commission Expense 31
19 Administrative and Other Operating Expenses 32
20 Income Taxes 32
21 Dividends 33
22 Segment Analysis 34
23 Financial Risk Management 35
24 Management of Capital 44
25 Contingencies and Commitments 44
26 Fair Value Disclosures 44
27 Presentation of Financial Instruments by Measurement Category 46
28 Related Party Transactions 47
29 Events after the Reporting Period 48
30 Accounting Policies for Leases before 1 January 2019 48

Independent Auditor's Report

To the Shareholders and Board of Directors of Embafinans Non-bank Credit Organisation Closed Joint-Stock Company:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Embafinans Non-bank Credit Organisation Closed Joint-Stock Company (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 ("IFRS").

What we have audited

The Company's financial statements comprise:

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

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

Independence

We are independent of the Company 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.

Our audit approach

Materiality	Overall materiality: Azerbaijan Manat ("AZN") 135 thousand, which represents 3% of profit before income tax
Key audit matters	Credit loss allowance for loans to customers

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall materiality	AZN 135 thousand
How we determined it	3% of the Company's profit before income tax
Rationale for the materiality benchmark applied	We chose profit before income tax as the benchmark because it is a generally accepted benchmark for profit-oriented entities. We chose 3%, which is consistent with quantitative materiality thresholds used for companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Credit loss allowance for loans to customers	
Measurement of expected credit losses (ECLs) is a significant estimate that involves determination of methodology, models and material data inputs. ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Company: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate. The Company regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. The entity develops the estimate based on detailed knowledge of the entity's risk, credit exposure, and risk mitigation practices and how these may be impacted by forward-looking events and conditions. Considering the level of audit risk, significance of loans to customers, complexity and high degree of judgements applied in the estimating ECL, credit loss allowance for loans to customers was key audit matter. Refer to Note 4 "Critical Accounting Estimates and Judgements in Applying Accounting Policies, Note 8 "Loans to customers".	We obtained an understanding of the entity's process for estimating ECL. This understanding included the underlying data and systems, which are used by the entity in determining the ECL estimate. We also understood where the entity has made judgments significant to the ECL estimate, the sufficiency of the information to support those judgments and the degree of estimation uncertainty inherent in those judgments. We evaluated and tested the reasonableness of the ECL methodology developed and applied by management. This includes components such as, model risk parameters (PD, LGD and EAD), forward-looking information, associated weighting, staging analysis and the ECL calculation. We assessed the appropriateness of PD, LGD and EAD by: - obtaining a detailed understanding of the methodology and assumptions; - testing the appropriateness of the entity's approach to loan portfolio segmentation; - evaluating the entity's modelling methodology used to create a 12-month PD and lifetime PD by the verification of data quality, open dates, maturity dates, overdue days and repayment schedules; evaluate whether forward-looking information is appropriately incorporated in the model; - assessing the reasonableness of the cash recoveries; - evaluating the appropriateness of the statistical methodology used under IFRS 9; - determining whether there is sufficient default data for the portfolio/segments to perform the LGD modelling and procedures regarding the loan collection. We obtained detailed understanding of the methodology applied by management to generate representative forward-looking scenarios, assigned weights, used variables and analysis of scenarios in relation to the central scenarios. We got understanding of the rationale behind using the EIR approximation for discounting used in the ECL calculation. We evaluated information disclosed in the notes to the financial statements, with regard to the credit loss allowance for loans to customers.

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

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

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

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

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 scepticism throughout the audit. We also:

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Fahri Mustafayev.

PricewaterhouseCoopers Audit Azerbaijan LLC

20 May 2020

Baku, the Republic of Azerbaijan

In Azerbaijani Manats	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	7	229,976	194,567
Loans to customers	8	34,988,897	23,434,041
Property, equipment and intangible assets	9	5,026,997	5,279,023
Right of use assets	10	369,596	-
Other assets	11	1,467,330	737,098
TOTAL ASSETS		**42,082,796**	**29,644,729**
LIABILITIES			
Debt securities in issue	12	4,026,353	2,791,816
Loans from banks	13	18,034,858	9,665,078
Payables to partners	14	365,585	500,950
Lease liabilities		326,748	-
Current income tax liability		510,665	412,979
Deferred income tax liability	20	39,721	45,232
Other liabilities	16	2,845,645	2,047,278
TOTAL LIABILITIES		**26,149,575**	**15,463,333**
EQUITY			
Share capital		10,000,000	10,000,000
Retained earnings		5,933,221	4,181,396
TOTAL EQUITY		**15,933,221**	**14,181,396**
TOTAL LIABILITIES AND EQUITY		**42,082,796**	**29,644,729**

Approved for issue and signed on behalf of the Management on 19 May 2020.

Mr. Samir Isgandarov
Chairman of the Board of Directors

Mr. Elnur Kazimov
Chief Financial Officer

In Azerbaijani Manats	Note	2019	2018
Interest income calculated using the effective interest method	17	9,919,256	6,885,353
Interest and similar expense	17	(2,118,433)	(1,263,032)
Net margin on interest and similar income		**7,800,823**	**5,622,321**
Credit loss allowance	8	(79,347)	(65,263)
Net margin on interest and similar income after credit loss allowance		**7,721,476**	**5,557,058**
Fee and commission income		112,688	111,632
Fee and commission expense	18	(534,797)	(226,322)
Foreign exchange translation gains less losses		963	565
Administrative and other operating expenses	19	(3,151,330)	(3,140,368)
Profit before income tax		**4,149,000**	**2,302,565**
Income tax expense	20	(897,175)	(475,271)
Profit for the year		**3,251,825**	**1,827,294**
Total comprehensive income for the year		**3,251,825**	**1,827,294**

The notes set out on pages 5 to 48 form an integral part of these financial statements.

In Azerbaijani Manats	Note	Share capital	Retained earnings	Total equity
Balance as at 1 January 2018		**10,000,000**	**2,804,102**	**12,804,102**
Profit for the year			1,827,294	1,827,294
Total comprehensive income for 2018			**1,827,294**	**1,827,294**
Dividends paid	21		(450,000)	(450,000)
Balance as at 31 December 2018		**10,000,000**	**4,181,396**	**14,181,396**
Profit for the year			3,251,825	3,251,825
Total comprehensive income for 2019			**3,251,825**	**3,251,825**
Dividends paid	21		(1,500,000)	(1,500,000)
Balance as at 31 December 2019		**10,000,000**	**5,933,221**	**15,933,221**

In Azerbaijani Manats		**2019**	**2018**
Cash flows from operating activities			
Interest received		11,517,037	4,931,212
Interest paid		(2,086,017)	(1,165,221)
Fees and commissions received		112,688	111,632
Fees and commissions paid		(534,797)	(226,322)
Operating expenses paid		(2,715,693)	(2,765,093)
Income tax paid		(805,000)	(90,000)
Cash flows from operating activities before changes in operating assets and liabilities		**5,488,218**	**796,208**
Net increase in:			
- loans to customers		(12,553,032)	(7,807,875)
- other assets		(714,075)	(160,279)
Net increase in:			
- other liabilities		80,291	2,157,414
- payables to partners		(135,365)	393,253
Net cash used in operating activities		**(7,833,963)**	**(4,621,279)**
Cash flows from investing activities			
Acquisition of properties and equipment and intangible assets		(130,900)	(31,750)
Proceeds from disposal of premises and equipment		629	-
Net cash used in investing activities		**(130,271)**	**(31,750)**
Cash flows from financing activities			
Proceeds from loans from banks		36,041,672	16,477,292
Repayment of loans from banks		(27,722,992)	(14,169,979)
Issue of corporate bonds		4,385,996	3,000,000
Repayment of Corporate bonds		(3,205,996)	(180,000)
Dividends paid		(1,500,000)	(450,000)
Net cash from financing activities		**7,998,680**	**4,677,313**
Effect of exchange rate changes on cash and cash equivalents		963	(565)
Net increase in cash and cash equivalents		**35,409**	**23,719**
Cash and cash equivalents at the beginning of the year		194,567	170,848
Cash and cash equivalents at the end of the year	7	**229,976**	**194,567**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2019 for Embafinans NBCO CJSC ("the Company").

The Company was incorporated and is domiciled in the Republic of Azerbaijan.

As at December 31, 2019 and 2018, the following shareholders owned the issued share capital of the Company:

Shareholder	31 December 2019	31 December 2018
Mr. Elshad Abbasov Inshalla	60%	60%
Mr. Mashur Mammadov Shahbaz	40%	40%
Total	**100%**	**100%**

As at 31 December 2019 and 2018, the Company is ultimately controlled by Mr. Elshad Abbasov.

Principal activity. Embafinans Closed Joint-Stock Company (the "Company") is a Non-Bank Credit Organization, which was incorporated in the Republic of Azerbaijan in 2012. The Company operates under a special license number BKT-10 issued by the Central Bank of the Republic of Azerbaijan ("CBAR") and is regulated by CBAR. The Company mainly lends to individuals to purchase furniture and other home appliances from its related party, Embawood LLC. As at 31 December 2019, such loans represented 51% of total loans to customers (December 31, 2018: 73%). Under this license, the Company does not have the right to obtain cash deposits and collateral in form of cash deposits.

Registered address and place of business. The Company's registered address and place of business is:

73E A.Abbasov Street, AZ 1141

Baku, the Republic of Azerbaijan

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

2 Operating Environment of the Company

The Republic of Azerbaijan 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.

2 Operating Environment of the Company (Continued)

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 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16, *Leases,* effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5. The principal accounting policies applied to leases until 31 December 2018 are presented in Note 30.

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

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

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. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

3 Significant Accounting Policies (Continued)

Financial instruments – initial recognition. All 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 AC, 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 Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

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

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

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

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

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL.

The Company applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 23 for a description of how the Company determines when a SICR has occurred. If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Company's definition of credit impaired assets and definition of default is explained in Note 23. The Note provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

3 Significant Accounting Policies (Continued)

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

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

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC.

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

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

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

Impairment allowances are determined based on the forward-looking ECL models. Note 23 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

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

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

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

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

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

	Useful lives in years
Premises	25 years
Computer an equipment	5 years
Vehicles	5 years

3 Significant Accounting Policies (Continued)

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

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

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

Accounting for leases by the Company as a lessee from 1 January 2019. The Company leases office premises. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is 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. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option,
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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
- restoration costs.

In determining the lease term, management of the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Accounting for operating leases by the Company as a lessee prior to 1 January 2019. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, 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.

3 Significant Accounting Policies (Continued)

Accounting for operating leases by the Company as a lessor. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

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

Payable to Partners. The Company issues loans for a defined period and with interest rate to customers in order to acquire furniture and other home appliances from its partners. The cash price of goods is transferred directly to partners either at the loan origination date or at a later date. Payable to partners is stated at AC.

Debt securities in issue. Debt securities in issue include bonds issued by the Company. Debt securities are stated at AC.

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the date which are expected to apply to the period when the temporary differences will reverse, or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available, against which the deductions can be utilised.

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

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

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The accounting reports of the Company are the basis for profit distribution and other appropriations. Azerbaijan legislation identifies the basis of distribution as the current year net profit.

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

3 Significant Accounting Policies (Continued)

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied for the AC.

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Company's performance. Such income includes fees for account maintenance, account servicing fees, account subscription fees, premium service package fees for servicing loans on behalf of third parties, etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Company satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received, or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements, as well as, commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses.

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

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

Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2019, the rate of exchange used for translating foreign currency balances denominated in United States dollars ("USD") was USD 1 = AZN 1.7000 (2018: USD 1 = AZN 1.7000).

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

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

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 23. The impact of the relevant economic variables on the PD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates. Such relationship (if statistically relevant for a given portfolio) is used to adjust marginal PD curves to make it more point-in-time (up to possible extent). PD is one event in time that can be reasonably linked with current or preceding macro parameters, which might be lagged. Macroeconomic function and overlay are used for the period of next 4 years as forecasts for longer horizon are not precise enough.

As process of recovery after default is scattered over a few years in changing economic conditions, the relationship between LGD and macro is usually very weak and not considered as material.

EAD parameter is driven by current gross book value and expected repayments, therefore no macro impact is used to this parameter.

The most significant forward-looking assumptions that correlate with ECL level and their assigned weights were as follows at 31 December 2019:

			Assumption for:			
Variable	Scenario	Assigned weight	2020	2021	2022	2023
GDP Growth rate	Neutral	33.3%	112.3	111.2	110.0	108.7
	Optimistic	33.3%	118.1	119.6	121.1	120.2
	Pessimistic	33.3%	106.5	102.7	99.0	97.3

The assumptions and assigned weights were as follows at 31 December 2018:

			Assumption for:			
Variable	Scenario	Assigned weight	2019	2020	2021	2022
GDP Growth rate	Neutral	33.3%	113.5	112.3	111.2	110.0
	Optimistic	33.3%	116.6	118.1	119.6	121.1
	Pessimistic	33.3%	110.4	106.5	102.7	99.0

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Company compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Company considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Company identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 23.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

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

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

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

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

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

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

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Write-off policy. Financial assets are written-off, in whole or in part, when the Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery: liquidation or bankruptcy proceedings, fair value of collateral is less than the costs to repossess it or enforcement activities were completed.

Initial recognition of related party transactions. In the normal course of business, the Company enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 28.

Determining lease term. The Company leases office buildings from third parties under contracts which do not have contractual maturity dates and are automatically renewed unless either party submits a termination notice of 3 months. The Company 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 Company's operations. As a result, the lease term for most significant office buildings has been determined as a period of 5 years.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 16, Leases. The Company 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.

On adoption of IFRS 16, the Company didn't recognise lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, *Leases*, because all operating leases relate to short-term leases as at 1 January 2019.

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

- 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,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company 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 Company relied on its assessment made applying IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

5 Adoption of New and Revised Standards (Continued)

The following amended standards became effective for the Company from 1 January 2019, but did not have any material impact on the Company:

- 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 Company has not early adopted.

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.

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.

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

7 Cash and Cash Equivalents

In Azerbaijani Manats	2019	2018
Cash on hand	13,599	11,916
Bank balances payable on demand	216,377	182,651
Total cash and cash equivalents	**229,976**	**194,567**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2019. Refer to Note 23 for the description of the Company's credit risk grading system.

In Azerbaijani Manats	Bank balances payable on demand	Total
- Good	154,279	154,279
- Satisfactory	57,742	57,742
- Special monitoring	4,356	4,356
Total cash and cash equivalents, excluding cash on hand	**216,377**	**216,377**

The credit quality of cash and cash equivalents balances at 31 December 2018, was as follows:

In Azerbaijani Manats	Bank balances payable on demand	Total
- Good	123,088	123,088
- Satisfactory	55,080	55,080
- Special monitoring	4,483	4,483
Total cash and cash equivalents, excluding cash on hand	**182,651**	**182,651**

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Company did not recognise any credit loss allowance for cash and cash equivalents. Refer to Note 23 for the ECL measurement approach.

Interest rate analysis of cash and cash equivalents is disclosed in Note 23. Information on related party balances is disclosed in Note 28.

8 Loans to Customers

In Azerbaijani Manats	31 December 2019	31 December 2018
Gross carrying amount of loans to customers at AC	35,859,125	24,224,922
Less credit loss allowance	(870,228)	(790,881)
Total carrying amount of loans to customers at AC	**34,988,897**	**23,434,041**

8 Loans to Customers (Continued)

Gross carrying amount and credit loss allowance amount for loans to customers at AC by classes at 31 December 2019 and 31 December 2018 are disclosed in the table below:

	31 December 2019			31 December 2018		
In Azerbaijani Manats	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Loans to corporate customers						
Loans to SME	788,334	(65,755)	722,579	478,090	(53,973)	424,117
Loans to individuals						
Real estate loans	954,737	(24,248)	930,489	39,642	(124)	39,518
Consumer loans	34,080,864	(780,126)	33,300,738	23,692,318	(736,749)	22,955,569
Business loans	35,190	(99)	35,091	14,872	(35)	14,837
Total loans to customers at AC	**35,859,125**	**(870,228)**	**34,988,897**	**24,224,922**	**(790,881)**	**23,434,041**

More detailed explanation of classes of loans to legal entities is provided below:

- Loans to SME – loans issued to small and medium-sized enterprises, where the Company defines these enterprises based on the number of employees and yearly turnover.

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans to customers carried at amortised cost between the beginning and the end of the reporting period:

	Credit loss allowance				Gross carrying amount			
In Azerbaijani Manats	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to SMEs								
At 31 December 2018	**659**	**-**	**53,314**	**53,973**	**335,621**	**-**	**142,469**	**478,090**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
Issued during the period	4,321	-	-	4,321	552,095	-	37,225	589,320
Derecognised during the period	(322)	-	-	(322)	(279,143)	-	-	(279,143)
Other movements	(239)	-	8,022	7,783	68	-	-	68
Total movements with impact on credit loss allowance charge for the period	**3,760**	**-**	**8,022**	**11,782**	**273,020**	**-**	**37,225**	**310,245**
At 31 December 2019	**4,419**	**-**	**61,336**	**65,755**	**608,641**	**-**	**179,694**	**788,335**

8 Loans to Customers (Continued)

In Azerbaijani Manats	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Loans to SMEs								
At 1 January 2018	**2,918**	**-**	**-**	**2,918**	**509,179**	**-**	**-**	**509,179**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(367)	-	367	-	(142,469)	-	142,469	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
Issued during the period	426	-	52,947	53,373	180,621	-	-	180,621
Derecognised during the period	(505)	-	-	(505)	(211,710)	-	-	(211,710)
Other movements	(1,813)	-	-	(1,813)	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**(2,259)**	**-**	**53,314**	**51,055**	**(173,558)**	**-**	**142,469**	**(31,089)**
At 31 December 2018	**659**	**-**	**53,314**	**53,973**	**335,621**	**-**	**142,469**	**478,090**

In Azerbaijani Manats	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Real estate loans								
At 31 December 2018	**124**	**-**	**-**	**124**	**39,642**	**-**	**-**	**39,642**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
Issued during the period	24,249	-	-	24,249	954,737	-	-	954,737
Derecognised during the period	(124)	-	-	(124)	(39,642)	-	-	(39,642)
Other movements	-	-	-	-	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**24,125**	**-**	**-**	**24,125**	**915,095**	**-**	**-**	**915,095**
At 31 December 2019	**24,249**	**-**	**-**	**24,249**	**954,737**	**-**	**-**	**954,737**

8 Loans to Customers (Continued)

In Azerbaijani Manats	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Real estate loans								
At 1 January 2018	-	-	-	-	-	-	-	-
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
Issued during the period	124	-	-	124	39,642	-	-	39,642
Derecognised during the period	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**124**	**-**	**-**	**124**	**39,642**	**-**	**-**	**39,642**
At 31 December 2018	**124**	**-**	**-**	**124**	**39,642**	**-**	**-**	**39,642**

In Azerbaijani Manats	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Consumer loans								
At 31 December 2018	**53,870**	**15,909**	**663,527**	**733,306**	**22,735,123**	**75,874**	**881,321**	**23,692,318**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(1,162)	1,162	-	-	(134,336)	134,336	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(4,928)	(9,872)	14,800	-	(428,470)	(46,268)	474,738	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	737	(737)	-	-	3,344	(3,344)	-	-
Issued during the period	59,396	24,083	213,639	297,118	31,695,302	98,591	340,328	32,134,221
Derecognised during the period	(34,359)	(5,300)	(168,916)	(208,575)	(21,186,579)	(126,695)	(421,963)	(21,735,237)
Other movements	(10,328)	-	(34,838)	(45,166)	(20,710)	62	10,209	(10,439)
Total movements with impact on credit loss allowance charge for the period	**9,356**	**9,336**	**24,685**	**43,377**	**9,928,551**	**56,682**	**403,312**	**10,388,545**
At 31 December 2019	**63,226**	**25,245**	**688,212**	**776,683**	**32,663,674**	**132,556**	**1,284,633**	**34,080,863**

8 Loans to Customers (Continued)

In Azerbaijani Manats	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Consumer loans								
At 1 January 2018	**24,824**	**4,013**	**693,863**	**722,700**	**14,960,909**	**20,009**	**880,796**	**15,861,714**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(304)	304	-	-	(7,722)	7,722	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1,026)	(2,091)	3,117	-	(51,488)	(8,892)	60,380	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	325	(325)	-	-	-	-	-	-
Issued during the period	52,576	15,605	55,423	123,604	22,405,810	68,152	107,519	22,581,481
Derecognised during the period	(19,082)	(1,597)	(57,795)	(78,474)	(14,508,955)	(35,851)	(206,716)	(14,751,522)
Other movements	(3,443)	-	(31,081)	(34,524)	(63,431)	24,734	39,342	645
Total movements with impact on credit loss allowance charge for the period	**29,046**	**11,896**	**(30,336)**	**10,606**	**7,774,214**	**55,865**	**525**	**7,830,604**
At 31 December 2018	**53,870**	**15,909**	**663,527**	**733,306**	**22,735,123**	**75,874**	**881,321**	**23,692,318**

During 2019, the Company has financed Optimal Electronics healthy portfolio at a fair value of AZN 15,573,343 to simplify existing partnerships relationship in a bilateral manner. Optimal Electronics is fully responsible for repayment of these loans according to the repayment schedule and it is considered reasonable to describe these loans as consumer loans.

In Azerbaijani Manats	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Business loans								
At 31 December 2018	**35**	**-**	**-**	**35**	**14,872**	**-**	**-**	**14,872**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
Issued during the period	98	-	-	98	33,249	-	-	33,249
Derecognised during the period	(20)	-	-	(20)	(12,882)	-	-	(12,882)
Other movements	(14)	-	-	(14)	(49)	-	-	(49)
Total movements with impact on credit loss allowance charge for the period	**64**	**-**	**-**	**64**	**20,318**	**-**	**-**	**20,318**
At 31 December 2019	**99**	**-**	**-**	**99**	**35,190**	**-**	**-**	**35,190**

8 Loans to Customers (Continued)

In Azerbaijani Manats	Credit loss allowance Stage 1 (12-months ECL)	Credit loss allowance Stage 2 (lifetime ECL for SICR)	Credit loss allowance Stage 3 (lifetime ECL for credit im-paired)	Credit loss allowance Total	Gross carrying amount Stage 1 (12-months ECL)	Gross carrying amount Stage 2 (lifetime ECL for SICR)	Gross carrying amount Stage 3 (lifetime ECL for credit im-paired)	Gross carrying amount Total
Business loans								
At 1 January 2018	-	-	-	-	-	-	-	-
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
Issued during the period	35	-	-	35	14,872	-	-	14,872
Derecognised during the period	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**35**	**-**	**-**	**35**	**14,872**	**-**	**-**	**14,872**
At 31 December 2018	**35**	**-**	**-**	**35**	**14,872**	**-**	**-**	**14,872**

The credit loss allowance for loans to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 23. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes to model assumptions, including changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models.

8 Loans to Customers (Continued)

The following table contains an analysis of the credit risk exposure of loans to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans to customers below also represents the Company's maximum exposure to credit risk on these loans.

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2019:

In Azerbaijani Manats	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to SME				
- Excellent	568,017	-	-	568,017
- Good	40,624	-	-	40,624
- Satisfactory	-	-	-	-
- Special monitoring	-	-	-	-
- Default	-	-	179,693	179,693
Gross carrying amount	**608,641**	**-**	**179,693**	**788,334**
Credit loss allowance	(4,419)	-	(61,336)	(65,755)
Carrying amount	**604,222**	**-**	**118,357**	**722,579**

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2019:

In Azerbaijani Manats	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Real estate loans				
- Excellent	467,744	-	-	467,744
- Good	486,993	-	-	486,993
- Satisfactory	-	-	-	-
- Special monitoring	-	-	-	-
- Default	-	-	-	-
Gross carrying amount	**954,737**	**-**	**-**	**954,737**
Credit loss allowance	(24,248)	-	-	(24,248)
Carrying amount	**930,489**	**-**	**-**	**930,489**
Consumer loans				
- Excellent	31,857,999	-	-	31,857,999
- Good	805,675	-	-	805,675
- Satisfactory	-	88,782	-	88,782
- Special monitoring	-	43,775	-	43,775
- Default	-	-	1,284,633	1,284,633
Gross carrying amount	**32,663,674**	**132,557**	**1,284,633**	**34,080,864**

8 Loans to Customers (Continued)

In Azerbaijani Manats	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Credit loss allowance	(63,227)	(25,245)	(691,655)	(780,127)
Carrying amount	**32,600,447**	**107,312**	**592,978**	**33,300,737**
Business loans				
- Excellent	35,190	-	-	35,190
- Good	-	-	-	-
- Satisfactory	-	-	-	-
- Special monitoring	-	-	-	-
- Default	-	-	-	-
Gross carrying amount	**35,190**	**-**	**-**	**35,190**
Credit loss allowance	(99)	-	-	(99)
Carrying amount	**35,091**	**-**	**-**	**35,091**

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2018:

In Azerbaijani Manats	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to SME				
- Excellent	335,621	-	-	335,621
- Good	-	-	-	-
- Satisfactory	-	-	-	-
- Special monitoring	-	-	-	-
- Default	-	-	142,469	142,469
Gross carrying amount	**335,621**	**-**	**142,469**	**478,090**
Credit loss allowance	(659)	-	(53,314)	(53,973)
Carrying amount	**334,962**	**-**	**89,155**	**424,117**

8 Loans to Customers (Continued)

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2018:

In Azerbaijani Manats	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Real estate loans				
- Excellent	39,642	-	-	39,642
- Good	-	-	-	-
- Satisfactory	-	-	-	-
- Special monitoring	-	-	-	-
- Default	-	-	-	-
Gross carrying amount	**39,642**	**-**	**-**	**39,642**
Credit loss allowance	(124)	-	-	(124)
Carrying amount	**39,518**	**-**	**-**	**39,518**
Consumer loans				
- Excellent	21,971,725	-	-	21,971,725
- Good	763,398	-	-	763,398
- Satisfactory	-	47,492	-	47,492
- Special monitoring	-	28,382	-	28,382
- Default	-	-	881,321	881,321
Gross carrying amount	**22,735,123**	**75,874**	**881,321**	**23,692,318**
Credit loss allowance	(53,871)	(15,909)	(666,969)	(736,749)
Carrying amount	**22,681,252**	**59,965**	**214,352**	**22,955,569**
Business loans				
- Excellent	14,872	-	-	14,872
- Good	-	-	-	-
- Satisfactory	-	-	-	-
- Special monitoring	-	-	-	-
- Default	-	-	-	-
Gross carrying amount	**14,872**	**-**	**-**	**14,872**
Credit loss allowance	(35)	-	-	(35)
Carrying amount	**14,837**	**-**	**-**	**14,837**

For description of the credit risk grading used in the tables above refer to Note 23.

The Company's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Company since the prior period. Description of collateral held for loans to corporate customers carried at amortised cost is as follows at 31 December 2019:

8 Loans to Customers (Continued)

In Azerbaijani Manats	Loans to SME
Loans collateralised by:	
- residential real estate	156,927
- other assets	12,080
Total	**169,007**
Unsecured exposures	553,572
Total carrying value loans to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**722,579**

Description of collateral held for loans to individuals carried at amortised cost is as follows at 31 December 2019:

In Azerbaijani Manats	Real estate loans	Consumer loans	Business loans	Total
Loans collateralised by:				
- residential real estate	930,489	-	-	930,489
- other assets	-	22,647,762	19,140	22,666,902
Total	**930,489**	**22,647,762**	**19,140**	**23,597,391**
Unsecured exposures (guaranteed)	-	10,652,975	15,951	10,668,926
Total carrying value loans to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**930,489**	**33,300,737**	**35,091**	**34,266,317**

Information about collateral for loans to corporate customers is as follows at 31 December 2018:

In Azerbaijani Manats	Loans to SME
Loans collateralised by:	
- residential real estate	89,155
Total	**89,155**
Unsecured exposures	334,963
Total carrying value loans to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**424,118**

8 Loans to Customers (Continued)

Information about collateral of loans to individuals carried at amortised cost is as follows at 31 December 2018:

In Azerbaijani Manats	Real estate loans	Consumer loans	Business loans	Total
Loans collateralised by:				
- residential real estate	39,518	-	-	39,518
- other assets	-	12,631,911	12,380	12,644,291
Total	**39,518**	**12,631,911**	**12,380**	**12,683,809**
Unsecured exposures	-	927,466	-	927,466
Total carrying value loans to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**39,518**	**13,559,377**	**12,380**	**13,611,275**

Other assets mainly include equipment. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral on credit impaired assets at 31 December 2019 is as follows.

	Over-collateralised assets		Under-collateralised assets	
In Azerbaijani Manats	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Credit impaired assets:				
Loans to corporate customers carried at AC				
Loans to SME	225,455	762,500	497,124	-
Loans to individuals carried at AC				
Real estate loans	466,565	1,396,925	463,924	350,000
Consumer loans	22,060,109	44,313,445	11,240,628	557,688
Business loans	19,140	33,200	15,951	-

8 Loans to Customers (Continued)

The effect of collateral at 31 December 2018 is presented for all loans, whether impaired or not, as follows:

	Over-collateralised assets		Under-collateralised assets	
In Azerbaijani Manats	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Credit impaired assets:				
Loans to corporate customers carried at AC				
Loans to SME	142,469	550,000	335,621	-
Loans to individuals carried at AC				
Real estate loans	39,642	117,000	-	-
Consumer loans	1,967,508	3,192,870	21,724,810	10,675,697
Business loans	8,679	22,000	6,193	3,724

The Company obtains collateral valuation at the time of granting. The values of collateral considered in this disclosure are after a valuation haircut applied to consider liquidity and quality of the pledged assets. The Company mainly lends to individuals to purchase furniture and other home appliances, which is pledged as collateral at the same time for the loan and this constitutes majority of collateral portfolio.

Refer to Note 26 for the estimated fair value of each class of loans to customers. Interest rate analysis of loans to customers is disclosed in Note 23. Information on related party balances is disclosed in Note 28.

9 Properties, Equipment and Intangible Assets

In Azerbaijani Manats	Premises	Computer and equipment	Vehicles	Intangible assets	Total
Cost at 1 January 2018	6,500,000	554,173	33,920	31,432	7,119,525
Accumulated depreciation/amortization	(1,269,736)	(186,870)	(34,744)	(5,625)	(1,496,975
Carrying amount at 1 January 2018	**5,230,264**	**367,303**	**(824)**	**25,807**	**5,622,550**
Additions	-	31,177	-	-	31,177
Disposals	-	(17,307)	-	-	(17,307)
Depreciation/amortization charge	(263,893)	(108,492)	-	(3,143)	(375,528)
Depreciation charge of disposal	-	17,307	824	-	18,131
Carrying amount at 31 December 2018	**4,966,371**	**289,988**	**-**	**22,664**	**5,279,023**
Cost at 31 December 2018	6,500,000	568,043	33,920	31,432	7,133,395
Accumulated depreciation/amortization	(1,533,629)	(278,055)	(33,920)	(8,768)	(1,854,372
Carrying amount at 31 December 2018	**4,966,371**	**289,988**	**-**	**22,664**	**5,279,023**
Additions	-	130,900	-	-	130,900
Disposals	-	(9,003)	-	-	(9,003)
Depreciation/amortization charge	(260,000)	(119,155)	-	(3,143)	(382,298)
Depreciation charge of disposal	-	8,375	-	-	8,375
Carrying amount at 31 December 2019	**4,706,371**	**301,105**	**-**	**19,521**	**5,026,997**
Cost at 31 December 2019	6,500,000	689,940	33,920	31,432	7,255,292
Accumulated depreciation/amortization	(1,793,629)	(388,835)	(33,920)	(11,911)	(2,228,295
Carrying amount at 31 December 2019	**4,706,371**	**301,105**	**-**	**19,521**	**5,026,997**

Intangible assets at 31 December 2019 and 2018 represent software license and modules used for the purposes of performing banking business.

10 Right of Use Assets and Lease Liabilities

The Company leases offices. Rental contracts are typically made for fixed periods of 12 months but may have extension options.

Contracts may contain both lease and non-lease components. The Company elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. 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.

Extension and termination options are included in a number of leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable by both the Company and the respective lessors.

Until 31 December 2018 leases of premises and equipment were 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 Company.

10 Right of Use Assets and Lease Liabilities (Continued)

The right of use assets by class of underlying items is analysed as follows:

In Azerbaijani Manats	**Buildings**
Carrying amount at 1 January 2019	-
Additions	383,811
Depreciation charge	(14,215)
Carrying amount at 31 December 2019	**369,596**

The recognised lease liabilities classified as follows:

In Azerbaijani Manats	**31 December 2019**	**1 January 2019**
Current portion	26,764	-
Non-current portion	299,984	-
Total lease liabilities	**326,748**	-

Interest expense on lease liabilities was AZN 5,937.

Expenses relating to short-term leases (included in general and administrative expenses) are included in general and administrative expenses:

In Azerbaijani Manats	**2019**
Expense relating to short-term leases	107,655

Total cash outflow for leases in 2019 was AZN 170,655.

11 Other Assets

In Azerbaijani Manats	**2019**	**2018**
Receivables from payment providers	1,354,087	676,665
Total financial assets	**1,354,087**	**676,665**
Deferred expense	113,243	60,433
Total other assets	**1,467,330**	**737,098**

Receivables from payment providers consist of cash in transit receivable from agencies providing the service of processing customers' repayments.

The credit quality of receivables from payment providers balances based on credit risk grades at 31 December 2019 is good. Refer to Note 23 for the description of the Company's credit risk grading system.

For the purpose of ECL measurement receivables from payment providers balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Company did not recognise any credit loss allowance for receivables from payment providers. Refer to Note 23 for the ECL measurement approach.

12 Debt Securities in Issue

In Azerbaijani Manats	2019	2018
Bonds issued on domestic market	4,026,353	2,791,816
Total debt securities in issue	**4,026,353**	**2,791,816**

On 19 February 2019, 29 April 2019 and 14 November 2019, the Company has issued corporate unsecured bonds in amount of AZN 2,000,000, 2000 bonds with face value of AZN 1000, in amount of AZN 1,000,000, 1000 bonds with face value of AZN 1,000 and in amount of AZN 1,000,000, 1000 bonds with face value of AZN 1,000. These issues were registered with the State Committee for Securities under identification code AZ2003020602, AZ2004020601 and AZ2005020600 consecutively. Bonds have 12 months of maturity with an annual coupon rate of 9.5%, 10.5% and 10.5% respectively, payable every other month. Pasha Kapital Investment Company, AzFinance Investment Company and UniCapital Investment Company are performing as the underwriter for the issues, respectively. On 08 October 2018 and 03 December 2018, the Company has issued corporate unsecured bonds in amount of AZN 2,000,000, 2000 bonds with face value of AZN 1000 and in amount of AZN 1,000,000, 1000 bonds with face value of AZN 1,000. These issues were registered with the State Committee for Securities under identification code AZ2001020604 and AZ2002020603 consecutively. Bonds have 12 months of maturity with an annual coupon rate of 10.5%, payable every other month. AzFinance Investment Company was performing as the underwriter for the total issue. Outstanding balance on corporate bonds include principal amount, and accrued interest.

Refer to Note 26 for the disclosure of the fair value of each class of debt securities in issue. Interest rate analyses of debt securities in issue are disclosed in Note 23.

13 Loans from Banks

In Azerbaijani Manats	Maturity	Nominal interest rate %	2019	2018
International Bank of Azerbaijan	04 October 2020	13%	2,350,000	3,007,150
International Bank of Azerbaijan	18 July 2020	11%	4,015,515	-
Pasha Bank OJSC	29 December 2020	11%	11,669,343	6,657,928
Total loan from banks			**18,034,858**	**9,665,078**

The above balances include principal amounts and accrued interest payables as at 31 December 2019 and 2018. Accrued interest payable as at 31 December 2019 was AZN 50,010 (2018: AZN 30,740).

Interest rates for the borrowings represent market rates for the years ended 31 December 2019 and 2018. The carrying value of the term borrowings approximates fair value at 31 December 2019 and 31 December 2018.

No financial and non-financial loan covenants have been stipulated by the aforementioned loan agreements.

Geographical, currency, maturity and interest rate analyses of term borrowings are disclosed in Note 23.

14 Payables to Partners

In Azerbaijani Manats	2019	2018
Payables to “Embawood” LLC	198,934	366,473
Payables to other partners	166,651	134,477
Total payables to partners	**365,585**	**500,950**

15 Share Capital

As at December 31, 2019 and 2018 share capital authorized consisted of 20,000 ordinary shares with par value of AZN 500 each. There were no issued and outstanding shares as at December 31, 2019 and 2018.

16 Other Liabilities

In Azerbaijani Manats	**2019**	**2018**
Payable to the employees	187,695	122,430
Other	50,251	35,811
Total financial other liabilities	**237,946**	**158,241**
Deferred interest income	2,558,329	1,840,254
Taxes payable, other than income tax	19,333	14,974
Other	30,037	33,809
Total other liabilities	**2,845,645**	**2,047,278**

Refer to Note 26 for disclosure of the fair value of financial liabilities. Information on related party balances is disclosed in Note 28.

17 Interest Income and Expense

In Azerbaijani Manats	**2019**	**2018**
Interest income		
Loans to customers at AC	9,919,256	6,885,353
Total interest income calculated using the effective interest	**9,919,256**	**6,885,353**
Interest and other similar expense		
Loans from banks	1,607,729	1,196,587
Debt securities in issue	504,767	66,445
Lease liabilities	5,937	-
Total interest and other similar expense	**2,118,433**	**1,263,032**
Net interest income	**7,800,823**	**5,622,321**

18 Fee and Commission Expense

In Azerbaijani Manats	**2019**	**2018**
Fee and commission expense		
Fee and commission expense not relating to financial instruments at fair value through profit or loss		
- Pay point operations	449,729	190,902
- Other	85,068	35,420
Total fee and commission expense	**534,797**	**226,322**

19 Administrative and Other Operating Expenses

In Azerbaijani Manats	2019	2018
Staff costs	1,963,338	1,797,360
Depreciation and amortization	382,298	375,528
Advertisement expenses	276,860	256,389
Rent expenses	107,655	95,841
Professional services	79,474	61,141
Communication expenses	62,825	46,469
Tax expense	49,803	53,862
Repair and maintenance	27,826	109,984
Depreciation of right of use assets	14,215	-
Agency costs	13,707	215,417
Other expenses	173,329	128,378
Total administrative and other operating expenses	**3,151,330**	**3,140,369**

Included in staff costs are social security contributions in the amount of AZN 269,220 (2018: AZN 330,127).

20 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense comprises the following:

In Azerbaijani Manats	2019	2018
Current tax	902,686	449,772
Deferred tax	(5,511)	25,499
Income tax expense for the year	**897,175**	**475,271**

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

The income tax rate applicable to the Company's income is 2019 and 2018 income is 20%. A reconciliation between the expected and the actual taxation charge is provided below.

In Azerbaijani Manats	2019	2018
Profit before tax	**4,149,000**	**2,302,565**
Theoretical tax charge at statutory rate of 20%	829,800	460,513
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	65,618	14,758
- Other	1,757	-
Income tax expense for the year	**897,175**	**475,271**

20 Income taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

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

The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2018: 20%).

In Azerbaijani Manats	1 January 2019	Credited to profit or loss	31 December 2019
Tax effect of deductible temporary differences			
Loans to customers	-	42,324	42,324
Property, equipment and intangible assets	(89,237)	(13,571)	(102,808)
Right of use assets	-	(64,919)	(64,919)
Lease liabilities	-	65,350	65,350
Other liabilities	44,005	(23,672)	20,333
Net deferred tax liability	**(45,232)**	**5,511**	**(39,721)**

The tax effect of the movements in the temporary differences for the year ended 31 December 2018 were:

In Azerbaijani Manats	1 January 2018	Credited to profit or loss	Charged directly to equity (Adoption of IFRS 9)	31 December 2018
Tax effect of deductible temporary differences				
Loans to customers	190,710	(19,894)	(170,816)	-
Property, equipment and intangible	(83,632)	(5,605)	-	(89,237)
Other liabilities	44,005	-	-	44,005
Net deferred tax liability	**151,083**	**(25,499)**	**(170,816)**	**(45,232)**

21 Dividends

In Azerbaijani Manats	2019 Ordinary	2018 Ordinary
Dividends payable at 1 January	-	-
Dividends declared during the year	1,500,000	450,000
Dividends paid during the year	(1,500,000)	(450,000)
Dividends payable at 31 December	-	-

All dividends are declared and paid in Azerbaijani Manats.

22 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person – or group of persons – who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Board of Directors of the Company.

The Company is organised on the basis of two main business segments:

- Retail – consumer loans and mortgages;
- Corporate – loan and other credit facilities.

The CODM evaluates performance of each segment based on profit before tax.

Segment information for the reportable segments for the year ended 31 December 2019 is set out below:

In Azerbaijani Manats	Retail banking	Corporate banking	Total
2019			
External revenue:			
- Interest income	9,810,429	108,827	9,919,256
- Fee and commission income	23,384	89,304	112,688
Total revenue	**9,833,813**	**198,131**	**10,031,944**
Interest expense	(2,078,819)	(39,615)	(2,118,434)
Credit loss allowance	(67,564)	(11,783)	(79,347)
Fee and commission expense	(524,796)	(10,000)	(534,796)
Foreign exchange translation gains less losses	963	-	963
Administrative and other operating expenses	(3,092,400)	(58,930)	(3,151,330)
Segment result	**4,071,197**	**77,803**	**4,149,000**

Segment information for the reportable segments for the year ended 31 December 2018 is set out below:

In Azerbaijani Manats	Retail banking	Corporate banking	Total
2018			
External revenues:			
- Interest income	6,810,268	75,085	6,885,353
- Fee and commission income	107,382	4,250	111,632
Total revenue	**6,917,650**	**79,335**	**6,996,985**
Interest expense	(1,248,711)	(14,321)	(1,263,032)
Credit loss allowance	(11,949)	(53,314)	(65,263)
Fee and commission expense	(223,756)	(2,566)	(226,322)
Foreign exchange translation gains less losses	565	-	565
Administrative and other operating expenses	(3,104,762)	(35,607)	(3,140,369)
Segment result	**2,329,037**	**(26,473)**	**2,302,564**

23 Financial Risk Management

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

Credit risk. The Company takes on exposure 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 discharge an obligation.

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

The Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For financial guarantees issued, 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 management. Credit risk is the single largest risk for the Company's business; management therefore carefully manages its exposure to credit risk.

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

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, workplace, credit history, net monthly income. Based on obtained information, customer's application either approved or rejected.

The principal credit risk management methods used is described in the formal Credit Policy adopted and implemented by the Company. These include the setting of limits and the diversification of the credit portfolio based upon defined criterion (such as industry, duration, related persons, region, etc.). Credits will also be classified at initiation and throughout the life of the loan based upon a risk level determined using best practice rating and scoring systems. Such tools will also be used to establish appropriate provisions for potential losses as necessary. All restrictions and norms issued by the Central Bank of Azerbaijan ("CBAR"), related to lending operations, have also been carefully considered and embedded into the Company's credit policy.

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

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

23 Financial Risk Management (Continued)

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Company applies two approaches – an Internal Risk-Based (IRB) rating system or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	Corresponding internal ratings	Corresponding ratings of external international rating agencies (S&P)
Excellent	0	AAA to BB+
Good	1	BB to B+
Satisfactory	2 - 3	B, B-
Special monitoring	4	CCC+ to CC-
Default	5 - 9	C, D-I, D-II

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

The IRB system is designed internally and ratings are estimated by management. Various credit-risk estimation techniques are used by the Company depending on the class of the asset. There are three commonly used types of such systems:

- *Model-based* – In this system, credit risk ratings are assigned by internally developed statistical models with the limited involvement of credit officers. Statistical models include qualitative and quantitative information that shows the best predictive power based on historical data on defaults.
- *Expert judgement-based* – In this system, credit risk ratings are assigned subjectively by experienced credit officers based on internally developed methodology and different qualitative and quantitative factors. This approach is based on expert methodology and judgements rather than on sophisticated statistical models.
- *Hybrid* – This rating system is a combination of the two systems above. It is developed by using historical data combined with expert input.

The Company applies IRB systems for measuring credit risk for the following financial assets: consumer, corporate loans and SMEs.

The rating models are regularly reviewed by the Credit Risk Department, backtested on actual default data and updated, if necessary. Despite the method used, the Company regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

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

23 Financial Risk Management (Continued)

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. PD an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

In order to calculate ECL an institution has to be able to determine the probability of default in a lifetime horizon (*Lifetime ECL*) for exposures in stage 2 and in a one-year horizon (*12-month ECL*) for those in stage 1. For the purpose of the IFRS9 implementation, the estimation approach was applied. Migration matrices were used for the entire portfolio to model transitions between final rating groups 0, 1, 2, 3 and default (DPD rating > 3) which are "states" in the Markov chain method.

One of the key requirements of IFRS9 is inclusion of forward looking components. Usually, this is interpreted as necessity to adjust the estimates along with expected evolution of economy (so called macroeconomic overlay). The comparatively easy and convenient way to include such adjustment to PD lifetime estimates is usage of regression models that explain behaviour of historical defaults rates versus selected macroeconomic variables. Such relationship (if statistically relevant for a given portfolio) should be used to adjust marginal PD curves thus making it more point-in-time (up to possible extent).

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

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

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

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

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

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

23 Financial Risk Management (Continued)

Level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

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

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

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

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

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

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

23 Financial Risk Management (Continued)

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

- In the case of LGD modelling the targeted variable is a lifetime probability of reaching by a defaulted exposure two extreme (absorbing) states – repayment or write off. LGD is just a probability weighted average loss conditional on two possible ultimate states – i.e.: 0% loss in case of repayment and 100% loss in case of write off which is identified as rating 9. As a consequence, the LGD parameter is just probability of migration to the state 9. Therefore, migration matrices approach was employed where ratings 4 - 9 were treated as separate states rather than grouped into one default state. In this method rating 9 is assumed to be an absorbing state and defaults with ratings 4-8 will have their respective LGD values estimated as a lifetime transition into state 9.
- The rationale behind the treatment of long remaining exposure values as fully lost comes from the fact that all standard recovery options should be already exercised and should already have their reflection in data that are basis for LGD estimation.

Refer to the ranking table in above *Credit risk grading system* section.

The result of the LGD estimation is as follows for 2019 and 2018:

Rating	LGD (2019)	LGD (2018)
4	28.60%	28.72%
5	34.13%	34.52%
6	43.36%	43.27%
7	61.81%	62.24%
8	77.49%	77.28%
9	92.25%	92.25%

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. The Company identified certain key economic variables that correlate with developments in credit risk and ECLs. Forecasts of economic variables (the "base economic scenario") are provided by the Company's economics team on a quarterly basis and provide the best estimate of the expected macro-economic development over the next four years. Refer to the Note 4.

Market risk. Market risk is the risk that the Company's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit spreads, commodity prices and equity prices, that the Company is exposed to. There have been no changes as to the way the Company measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

The Company is closely related to the market position and sales of Embawood LLC. Major part of loan portfolio consists of the loans from the sale of furniture and fixture of Embawood LLC. As at 31 December 2019, such loans represented 51% of total loans to customers (December 31, 2018: 73%). The Company takes on exposure to effects of operations of Embawood LLC. In order to manage this risk, management regularly assess the financial statements of Embawood LLC and consider size and position of branches in the market. Secondly, the loans from the sale of home appliances of Optimal Electronics represented 25% of total loans to customers as at 31 December 2019 (December 31, 2018: 4%). Moreover, the Company focuses on diversification of loan portfolio as a primary imperative. The Company diversifies its loan portfolio concluding new agreements with different partners.

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

23 Financial Risk Management (Continued)

The table below summarises the Company'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**
AZN	36,571,739	(22,991,490)	13,580,249	24,304,205	(13,116,085)	11,188,120
USD	628	-	628	628	-	628
EUR	592	-	592	440	-	440
Total	**36,572,959**	**(22,991,490)**	**13,581,469**	**24,305,273**	**(13,116,085)**	**11,189,188**

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

	At 31 December 2019	At 31 December 2018
In Azerbaijani Manats	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 20% (2018: strengthening by 20%)	126	126
US Dollar weakening by 20% (2018: weakening by 20%)	(126)	(126)
EUR strengthening by 20% (2018: strengthening by 20%)	118	88
EUR weakening by 20% (2018: weakening by 20%)	(118)	(88)
Total	-	-

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

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

- The sensitivity analysis shows the effects of changes that are considered to be reasonably possible over the period until the Company will next present these disclosures, which is usually its next annual reporting period;
- The Company discloses only the effects of the changes at the limits of the reasonably possible range of the relevant risk variable, rather than all reasonably possible changes.

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Management monitors on a daily basis and set limits on the level of mismatch of interest rate re-pricing that may be undertaken.

23 Financial Risk Management (Continued)

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

In Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 1 year	More than 1 year	Non-interest bearing	Total
31 December 2019						
Total financial assets	3,666,919	18,908,977	10,003,542	2,409,459	1,584,062	36,572,959
Total financial liabilities	(3,283,635)	(13,802,067)	(5,002,273)	(299,985)	(603,530)	(22,991,490)
Net interest sensitivity gap at 31 December 2019	**383,284**	**5,106,910**	**5,001,269**	**2,109,474**	**980,532**	**13,581,469**
31 December 2018						
Total financial assets	3,235,393	5,105,019	13,676,231	1,417,398	871,232	24,305,273
Total financial liabilities	(1,644,977)	(2,381,055)	(8,406,142)	(525,670)	(158,241)	(13,116,085)
Net interest sensitivity gap at 31 December 2018	**1,590,416**	**2,723,964**	**5,270,089**	**891,728**	**712,991**	**11,189,188**

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

In % p.a.	2019 AZN	2018 AZN
Assets		
Loans to customers	28%-37%	28%-34%
Liabilities		
Loans from banks	11-13%	12-19%
Debt securities in issue	9.50-10.50%	10.5%
Lease liabilities	11.05%	-

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

Geographical risk concentrations. The Company conducts lending activities only within territory of Azerbaijan Republic as at December 31, 2019 and 2018, the Company's all financial assets and liabilities are subject to 100% concentration to the Republic of Azerbaijan, which represents a significant geographical concentration in one region.

Liquidity risk. Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations arising from its financial liabilities. It refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

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

23 Financial Risk Management (Continued)

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

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

The table below shows liabilities at 31 December 2018 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

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

In Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 1 year	From 1 year to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	229,976	-	-	-	-	229,976
Loans to customers	4,215,366	19,734,514	10,441,780	2,886,457	198	37,278,315
Other financial assets	1,354,087	-	-	-	-	1,354,087
Total	**5,799,429**	**19,734,514**	**10,441,780**	**2,886,457**	**198**	**38,862,378**
Liabilities						
Loans from banks	(3,429,061)	(11,269,710)	(4,053,066)	-	-	(18,751,837)
Debt securities in issue	(26,353)	(3,308,699)	(1,110,202)	-	-	(4,445,254)
Payables to "Embawood"	(198,934)	-	-	-	-	(198,934)
Payables to other partners	(166,651)	-	-	-	-	(166,651)
Lease liabilities	-	(9,000)	(54,000)	(360,000)	-	(423,000)
Other financial liabilities	(237,946)	-	-	-	-	(237,946)
Total potential future payments for financial obligations	**(4,058,945)**	**(14,587,409)**	**(5,217,268)**	**(360,000)**	**-**	**(24,223,622)**
Liquidity gap arising from financial instruments	**1,740,484**	**5,147,104**	**5,224,512**	**2,526,458**	**198**	**14,638,756**

23 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial instruments at 31 December 2018 is as follows:

In Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 1 year	From 1 year to 5 years	Total
Assets					
Cash and cash equivalents	194,567	-	-	-	194,567
Loans to customers	3,266,968	5,196,620	15,841,497	1,588,225	25,893,310
Other financial assets	676,665	-	-	-	676,665
Total	**4,138,200**	**5,196,620**	**15,841,497**	**1,588,225**	**26,764,542**
Liabilities					
Loans from banks	(974,943)	(1,989,508)	(6,775,440)	(539,983)	(10,279,874)
Debt securities in issue	(278,739)	(613,847)	(2,033,042)	-	(2,925,628)
Payables to Embawood	(366,473)	-	-	-	(366,473)
Payables to other partners	(134,477)	-	-	-	(134,477)
Other financial liabilities	(158,241)	-	-	-	(158,241)
Total potential future payments for financial obligations	**(1,912,873)**	**(2,603,355)**	**(8,808,482)**	**(539,983)**	**(13,864,693)**
Liquidity gap arising from financial instruments	**2,225,327**	**2,593,265**	**7,033,015**	**1,048,242**	**12,899,849**

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

In Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 1 year	More than 1 year	Total
At 31 December 2019					
Financial assets	5,250,981	18,908,977	10,003,542	2,409,459	36,572,959
Financial liabilities	(3,887,166)	(13,802,067)	(5,002,273)	(299,984)	(22,991,490)
Net liquidity gap based on expected maturities	**1,363,815**	**5,106,910**	**5,001,269**	**2,109,475**	**13,581,469**
At 31 December 2018					
Financial assets	4,106,625	5,105,019	13,676,231	1,417,398	24,305,273
Financial liabilities	(1,803,218)	(2,381,055)	(8,406,142)	(525,670)	(13,116,085)
Net liquidity gap based on expected maturities	**2,303,407**	**2,723,964**	**5,270,089**	**891,728**	**11,189,188**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Company's liquidity risk. It is unusual for financial corporations ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Company and its exposure to changes in interest and exchange rates.

23 Financial Risk Management (Continued)

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

24 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a sufficient capital base.

25 Contingencies and Commitments

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

Compliance with regulatory ratios. The regulator requires financial institutions to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2019, the Company was in compliance with all prudential ratios.

Tax contingencies. Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. Recent events within 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.

Management believes that as of 31 December 2019 its interpretation of the relevant legislation is appropriate and that the Company's tax position will be sustained.

26 Fair Value Disclosures

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

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

26 Fair Value Disclosures (Continued)

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

In Azerbaijani Manats	31 December 2019 Level 2 fair value	31 December 2019 Carrying value	31 December 2018 Level 2 fair value	31 December 2018 Carrying value
ASSETS				
Loans to customers at AC				
- Corporate loans	722,579	722,579	424,117	424,117
- Loans to individuals -consumer loans	33,300,738	33,300,738	22,955,569	22,955,569
- Loans to individuals – entrepreneurs	35,091	35,091	14,837	14,837
- Real estate loans	930,489	930,489	39,518	39,518
Cash and cash equivalents				
- Cash and cash equivalents	229,976	229,976	194,567	194,567
Other financial assets:				
- Receivables from counterparties	1,354,087	1,354,087	676,665	676,665
TOTAL	**36,572,960**	**36,572,960**	**24,305,273**	**24,305,273**

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

In Azerbaijani Manats	31 December 2019 Level 2 fair value	31 December 2019 Carrying value	31 December 2018 Level 2 fair value	31 December 2018 Carrying value
FINANCIAL LIABILITIES				
Loans from banks				
- Loans from banks	18,034,858	18,034,858	9,665,078	9,665,078
Debt securities in issue				
- Bonds issued on domestic market	4,026,353	4,026,353	2,791,816	2,791,816
Payables to Partners				
- Payables to "Embawood" LLC	198,934	198,934	366,473	366,473
- Payables to other partners	166,651	166,651	134,477	134,477
Other financial liabilities	237,946	237,946	158,241	158,241
TOTAL	**22,664,742**	**22,664,742**	**13,116,085**	**13,116,085**

The carrying amounts of cash and cash equivalents and payables to partners approximates fair value due to the short-term nature concluding of such financial instruments' contracts on market terms.

The fair values of the financial assets and financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

26 Fair Value Disclosures (Continued)

The fair value of loans to customers, loans from banks and Debt securities in issue is estimated by discounting the scheduled future cash flows of the individual assets/liabilities through the estimated maturity using market rates as at the respective year-end.

27 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.

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

In Azerbaijani Manats	AC	Total
ASSETS		
Cash and cash equivalents	229,976	229,976
Loans to customers		
- Loans to SME	722,579	722,579
- Real estate loans	930,489	930,489
- Consumer loans	33,300,737	33,300,737
- Business loans	35,091	35,091
Other financial assets:		
- Trade receivables	1,354,087	1,354,087
TOTAL FINANCIAL ASSETS	**36,572,960**	**36,572,960**

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

In Azerbaijani Manats	AC	Total
ASSETS		
Cash and cash equivalents	194,567	194,567
Loans to customers		
- Loans to SME	424,117	424,117
- Mortgage loans	39,518	39,518
- Consumer loans	22,955,569	22,955,569
- Business loans	14,837	14,837
Other financial assets:		
- Trade receivables	676,665	676,665
TOTAL FINANCIAL ASSETS	**24,305,273**	**24,305,273**

As of 31 December 2019 and 31 December 2018, all of the Company's financial liabilities were carried at AC.

28 Related Party Transactions

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

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

In Azerbaijani Manats	Key management personnel	Entities under common control
Loans to customers	84,144	497,124
Agency costs	-	198,934
Other liabilities	60,145	2,046,663

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

In Azerbaijani Manats	Key management personnel	Entities under common control
Loans to customers	22,734	155,000
Agency costs	-	366,473
Other liabilities	13,373	1,617,999

Included in the statement of profit or loss and other comprehensive income for the years ended December 31, 2019 and 2018 are the following amounts which were recognized in transactions with related parties:

In Azerbaijani Manats	Key management personnel	Entities under common control	Shareholder
Rent expense	-	93,023	6,120
Business trip expense	670	-	-

In Azerbaijani Manats	Key management personnel	Entities under common control	Shareholder
Agency costs	-	215,417	-
Rent expense	-	83,721	6,120
Business trip expense	666	-	-

Key management compensation is presented below:

	2019	2018
In Azerbaijani Manats	Expense	Expense
Short-term employee benefits	411,083	321,888

29 Events after the Reporting Period

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to business and economic activity. The Management considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. In the first quarter of 2020, the company's interest income and profit is 53% and 43% more in comparison to the first quarter of 2019. Management believes that the impact of Covid-19 pandemic on the Company will be felt starting from April.

Due to the restrictions in the quarantine regime announced in connection with the pandemic in the Republic of Azerbaijan, new loans can be issued only by online. However, significant decrease in loan generation in comparison to the same period of 2019 has been observed although new loans are issued only by online. The Company managed to switch its lending and collection strategy to online platform before announcing pandemic.

Taking into account the quarantine regime, the Company postponed critical measures regarding loan repayments and suspended the penalty charges until the end of the quarantine. The principal amount overdue for more than one day before the first extension of the quarantine period (20.04.2020), increased by 68.8% as compared to 31 December 2019. However, this increase consisted only 1.9% of the total loan portfolio.

Cash flows generated in the first quarter of 2020 due to good economic performance will be enough for extinguishment of the liabilities related to issued bonds and loans obtained from the banks in the second quarter, as well as operating expenses, including salaries, even if there is no change in the payment schedule. By supporting this fact, the Company has repaid bonds in amount of AZN 1 million during April which is considered quarantine period. During the quarantine period, due to the decline in lending no redundancies were reported and salaries were fully paid.

The Management estimates that the impact of COVID 19 pandemic will be temporarily and some deterioration will be observed in the short run, then as economic lockdown eliminate, gradual improvement will occur and the quality of consumer loans will return to the prior level. The Company granted consumer loans only those who have official workplace, salary, work experience and satisfactory credit history. Azerbaijan Government plans to support business activities which are affected by COVID-19 pandemic and unemployed population in order to mitigate losses incurred by those segments. Therefore, management believes that great majority of customers did not lose their job and they will repay the loan on time after the quarantine rules are relaxed.

The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Company's IFRS 9 estimates of expected credit loss provisions in 2020.

Another impact of this outbreak is a decline in oil prices as a result of a decrease in global oil demand. Any depreciation of AZN against foreign currencies isn't expected to have a negative impact on the Company's cash flows, since both the Company's loan portfolio and borrowings are in local currency. The Management closely monitors ongoing processes and their effects on the Company's operations.

30 Accounting Policies for Leases before 1 January 2019

Accounting policies applicable to the comparative period ended 31 December 2018 that were amended by IFRS 16, *Leases*, are as follows.

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.