Embafinans NBCO CJSC

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

31 December 2021

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INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the Shareholders and Board of Directors of the 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 2021, and the Company's financial performance and 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 2021;
- 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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") 211 thousand, which represents 5% 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 211 thousand
How we determined it	5% of the Company's profit before income tax
Rationale for the materiality benchmark applied	We chose profit before income tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented 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 Company develops the expected credit loss estimate based on its detailed risk background, credit exposure, risk mitigation practices and impacts of forward-looking events and conditions. Due to the inherent risk and estimation uncertainty involved in determining ECL provision and the level of credit risk associated with the Company's customers, the ECL results are continuously susceptible to the changing economic environment and consequent regulatory responses thereof, which may alter the correlations between losses, borrower creditworthiness and economic conditions, as well as impact economic factors such as GDP and unemployment, and consequently the extent and timing of customer defaults. This broadens the range of possible outcomes in estimating	We obtained an understanding of the Company's process for estimating ECL. This understanding included the underlying data and systems, which are used by the Company in determining the ECL estimate. We also understood where the Company 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 also assessed the appropriateness of methodologies and related models that did not change during the year and whether management judgmental adjustments were needed. 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 Company's approach to loan portfolio segmentation; - evaluating the Company'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;

ECLs, which increases the judgement required in assessing the appropriateness of existing methodologies and economic forecasts data from external economists, and in determining assumptions. ECLs have been adjusted through management judgemental adjustments to reflect these limitations.

Considering the significance of and the level of audit risk for accuracy and valuation assertions on loans to customers, complexity and high degree of judgements applied in the estimating ECL, credit loss allowance for loans to customers was a key audit matter.

Refer to Note 4 “Critical Accounting Estimates and Judgements in Applying Accounting Policies, Note 8 “Loans to customers”.

- determining whether there is sufficient default data for the portfolio/segments to perform the LGD modelling and procedures regarding the loan collection.

We considered the potential future impact of macroeconomic conditions on the allowance for ECL. We obtained detailed understanding of the methodology applied by the management to generate representative forward-looking scenarios, assigned weights, used variables and analysis of scenarios in relation to the central scenarios. We considered the sensitivity of the ECL provision to variations in PD and LGD.

We obtained 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, actions taken to eliminate threats or safeguards applied.

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

Baku, the Republic of Azerbaijan

27 May 2022

In Azerbaijani Manats	Note	31 December 2021	31 December 2020
ASSETS			
Cash and cash equivalents	7	380,324	1,354,284
Loans to customers	8	26,001,713	23,961,923
Property, equipment and intangible assets	9	4,399,044	4,724,210
Right of use assets	10	292,555	316,245
Other assets	11	1,345,064	624,438
TOTAL ASSETS		**32,418,700**	**30,981,100**
LIABILITIES			
Debt securities in issue	12	5,643,465	1,505,958
Loans from banks	13	9,415,364	12,448,151
Payables to partners	14	248,503	216,067
Lease liabilities	10	330,506	348,820
Current income tax liability		314,174	236,042
Deferred income tax liability	20	95,994	121,973
Other liabilities	16	272,450	341,455
TOTAL LIABILITIES		**16,320,456**	**15,218,466**
EQUITY			
Share capital	15	10,000,000	10,000,000
Retained earnings		6,098,244	5,762,634
TOTAL EQUITY		**16,098,244**	**15,762,634**
TOTAL LIABILITIES AND EQUITY		**32,418,700**	**30,981,100**

Approved for issue and signed on behalf of the Management on 26 May 2022.

Mr. Samir Isgandarov
Chairman of the Board of Directors

Mr. Elnur Kazimov
Chief Financial Officer

In Azerbaijani Manats	Note	2021	2020
Interest income calculated using the effective interest method	17	9,626,587	10,088,437
Interest and similar expense	17	(1,831,337)	(2,087,160)
Net margin on interest and similar income		**7,795,250**	**8,001,277**
Credit loss allowance	8	(254,384)	(775,336)
Net margin on interest and similar income after credit loss allowance		**7,540,866**	**7,225,941**
Fee and commission income		177,549	217,166
Fee and commission expense	18	(508,875)	(465,443)
Gain on disposals of fixed assets		-	25,500
Foreign exchange translation gains less losses		(793)	(872)
Administrative and other operating expenses	19	(2,989,065)	(3,230,251)
Profit before income tax		**4,219,682**	**3,772,041**
Income tax expense	20	(884,072)	(942,628)
Profit for the year		**3,335,610**	**2,829,413**
Total comprehensive income for the year		**3,335,610**	**2,829,413**

In Azerbaijani Manats	Note	Share capital	Retained earnings	Total equity
Balance as at 1 January 2020		**10,000,000**	**5,933,221**	**15,933,221**
Profit for the year		-	2,829,413	2,829,413
Total comprehensive income for 2020		**-**	**2,829,413**	**2,829,413**
Dividends paid	21	-	(3,000,000)	(3,000,000)
Balance as at 31 December 2020		**10,000,000**	**5,762,634**	**15,762,634**
Profit for the year		-	3,335,610	3,335,610
Total comprehensive income for 2021		**-**	**3,335,610**	**3,335,610**
Dividends paid	21	-	(3,000,000)	(3,000,000)
Balance as at 31 December 2021		**10,000,000**	**6,098,244**	**16,098,244**

In Azerbaijani Manats	**Note**	**2021**	**2020**
Cash flows from operating activities			
Interest received		9,656,900	10,005,856
Interest paid		(1,652,880)	(2,065,433)
Fees and commissions received		177,549	217,166
Fees and commissions paid		(508,875)	(465,443)
Operating expenses paid		(2,513,129)	(2,688,161)
Income tax paid		(831,919)	(1,135,000)
Cash flows from operating activities before changes in operating assets and liabilities		**4,327,646**	**3,868,985**
Net (increase)/decrease in:			
- loans to customers		(2,147,079)	7,748,832
- other assets		(904,052)	832,637
Net increase/(decrease) in:			
- other liabilities		(69,004)	54,139
- payables to partners		32,436	(149,518)
Net cash from operating activities		**1,239,947**	**12,355,075**
Cash flows from investing activities			
Acquisition of properties and equipment and intangible assets		(40,479)	(115,773)
Proceeds from disposal of premises and equipment		-	25,500
Net cash used in investing activities		**(40,479)**	**(90,273)**
Cash flows from financing activities			
Proceeds from loans from banks		22,780,000	23,696,429
Repayment of loans from banks		(25,814,844)	(29,283,725)
Issue of corporate bonds		5,500,000	1,500,000
Repayment of Corporate bonds		(1,500,000)	(4,000,000)
Repayment of principal of lease liabilities		(137,791)	(52,326)
Dividends paid	21	(3,000,000)	(3,000,000)
Net cash used in financing activities		**(2,172,635)**	**(11,139,622)**
Effect of exchange rate changes on cash and cash equivalents		(793)	(872)
Net (decrease)/increase in cash and cash equivalents		**(973,960)**	**1,124,308**
Cash and cash equivalents at the beginning of the year	7	1,354,284	229,976
Cash and cash equivalents at the end of the year	7	**380,324**	**1,354,284**

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

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2021 for Embafinans NBCO CJSC ("the Company").

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

As at 31 December 2021 and 2020, the following shareholders owned the issued share capital of the Company:

Shareholder	31 December 2021	31 December 2020
Mr. Elshad Abbasov Inshalla	51%	51%
Mr. Mashur Mammadov Shahbaz	35%	35%
Ms. Polyakova Tamara Bashirovna	14%	14%
Total	**100%**	**100%**

As at 31 December 2021 and 2020, 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 2021, such loans represented 73% of total loans to customers (31 December 2020: 59%). 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 Manat.

Based on the economic reforms initiated after the devaluation of 2016 involving institutional changes, between 2017-2019 period economic growth remained positive, inflation was stable at a low single-digit rate and the exchange rate of the national currency was sustainable.

Azerbaijani economy rebounded strongly in 2021 from recession in 2020 and grew by 5.6 percent, reaching pre-pandemic level. The recovery in oil prices in 2021 and gradual lifting of pandemic restrictions built confidence and economic growth was led by robust performance in non-oil sectors, despite challenges from the ongoing pandemic. The Manat remained stable throughout 2021 as pressure on Manat decreased substantially, thanks to more than 60% annual rise in exports.

After the liberation of occupied territories in Karabakh region, restoration and reconstruction of the liberated territory have started swiftly, with the focus of reintegrating these territories to Azerbaijani economy. These activities are expected to provide a further boost to Azerbaijani economy in near future and long-term.

In April 2021, Moody's affirmed Azerbaijan's economy as "Ba2" rating and changed outlook from stable to positive. In April 2022, Moody's issued a Credit Opinion of "Ba2" positive for Azerbaijan.

2 Operating Environment of the Company (Continued)

The ongoing effects of the political and economic situation are difficult to predict, but they may have further effects on the economy of Azerbaijan, which may lead to a deterioration of the State finances, volatility of financial markets, illiquidity on capital markets, higher inflation and a depreciation of the national currency against major foreign currencies.

The future effects of the current economic situation and the above measures are difficult to predict and management's current expectations and estimates could differ from actual results.

For the purpose of measurement of expected credit losses ("ECL") the Company uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected.

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.

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. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

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.

3 Significant Accounting Policies (Continued)

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 gross 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.

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.

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

3 Significant Accounting Policies (Continued)

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Company in performing the SPPI test for its financial assets.

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.

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 assets – modification. The Company sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Company assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

3 Significant Accounting Policies (Continued)

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Company derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Company also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Company compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Company recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate and recognises a modification gain or loss in profit or loss.

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

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.

3 Significant Accounting Policies (Continued)

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. 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 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.

3 Significant Accounting Policies (Continued)

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

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

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

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.

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.

3 Significant Accounting Policies (Continued)

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 2021, the rate of exchange used for translating foreign currency balances denominated in United States dollars ("USD") was USD 1 = AZN 1.7000 (2020: 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:

Going concern. The Company prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of recent macro-economic developments on future operations of the Company.

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

ECL measurement. Measurement of ECL 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.

A change in the weight assigned to base forward-looking macro-economic set of assumptions by 20% towards the immediate downside or upside level assumptions would result in an increase or decrease in ECL by AZN 124,567 at 31 December 2021 (31 December 2020: increase or decrease of AZN 203,248).

A 20% increase or decrease in PD estimates would result in an increase or decrease in total expected credit loss allowances of AZN 34,125 at 31 December 2021 (31 December 2020: increase or decrease of AZN 57,566). A 20% increase or decrease in LGD estimates would result in an increase or decrease in total expected credit loss allowances of AZN 114,834 at 31 December 2021 (31 December 2020: increase or decrease of AZN 161,671).

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.

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.

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

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 per 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.

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

The following amended standards became effective for the Company from 1 January 2021, but didn't have any material impact on the Company:

- *COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020).*
- *Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).*

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 2022 or later, and which the Company has not early adopted.

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

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Company is currently assessing the impact of the amendments on its financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

6 New Accounting Pronouncements (Continued)

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Company is currently assessing the impact of the amendments on its financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Company is currently assessing the impact of the amendments on its financial statements.

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	31 December 2021	31 December 2020
Cash on hand	8,277	43,865
Bank balances payable on demand	372,047	1,310,419
Total cash and cash equivalents	**380,324**	**1,354,284**

At 31 December 2021 the Company had 2 counterparty banks (2020: 2 bank) with aggregated cash and cash equivalent balances above AZN 50,000. The total aggregate amount of these balances was AZN 273,140 (2020: AZN 1,219,052) or 72% of the cash and cash equivalents (2020: 90%).

7 Cash and Cash Equivalents (Continued)

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2021. Refer to Note 23 for the description of the Company's credit risk grading system.

In Azerbaijani Manats	**Bank balances payable on demand**
- Good	57,508
- Satisfactory	314,539
Total cash and cash equivalents, excluding cash on hand	**372,047**

The credit quality of cash and cash equivalents balances at 31 December 2020, was as follows:

In Azerbaijani Manats	**Bank balances payable on demand**
- Good	977,566
- Satisfactory	332,853
Total cash and cash equivalents, excluding cash on hand	**1,310,419**

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.

8 Loans to Customers

In Azerbaijani Manats	**31 December 2021**	**31 December 2020**
Gross carrying amount of loans to customers at AC	27,639,000	25,607,487
Less credit loss allowance	(1,637,287)	(1,645,564)
Total carrying amount of loans to customers at AC	**26,001,713**	**23,961,923**

Gross carrying amount and credit loss allowance amount for loans to customers at AC by classes at 31 December 2021 and 31 December 2020 are disclosed in the table below:

	31 December 2021			**31 December 2020**		
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	217,717	(134,262)	83,455	591,873	(97,419)	494,454
Loans to individuals						
Real estate loans	72,005	(33,916)	38,089	993,841	(220,306)	773,535
Consumer loans	27,112,896	(1,457,482)	25,655,414	23,978,033	(1,319,324)	22,658,709
Business loans	236,382	(11,627)	224,755	43,740	(8,515)	35,225
Total loans to customers at AC	**27,639,000**	**(1,637,287)**	**26,001,713**	**25,607,487**	**(1,645,564)**	**23,961,923**

8 Loans to Customers (Continued)

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 2020	**2,624**	**-**	**94,795**	**97,419**	**355,983**	**-**	**235,890**	**591,873**
Movements with impact on credit loss allowance charge for the period:								
Derecognised during the period	(2,624)	-	-	(2,624)	(355,983)	-	(15,111)	(371,094)
Other movements	-	-	39,467	39,467	-	-	(3,062)	(3,062)
Total movements with impact on credit loss allowance charge for the period	**(2,624)**	**-**	**39,467**	**36,843**	**(355,983)**	**-**	**(18,173)**	**(374,156)**
At 31 December 2021	**-**	**-**	**134,262**	**134,262**	**-**	**-**	**217,717**	**217,717**

	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 1 January 2020	**4,419**	**-**	**61,336**	**65,755**	**608,641**	**-**	**179,694**	**788,335**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1,679)	-	35,240	33,561	(40,623)	-	40,623	-
Derecognised during the period	(116)	-	(1,781)	(1,897)	(211,591)	-	(5,940)	(217,531)
Other movements	-	-	-	-	(444)	-	21,513	21,069
Total movements with impact on credit loss allowance charge for the period	**(1,795)**	**-**	**33,459**	**31,664**	**(252,658)**	**-**	**56,196**	**(196,462)**
At 31 December 2020	**2,624**	**-**	**94,795**	**97,419**	**355,983**	**-**	**235,890**	**591,873**

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
Real estate loans								
At 31 December 2020	**27**	**35**	**220,244**	**220,306**	**27,954**	**17,838**	**948,049**	**993,841**
Movements with impact on credit loss allowance charge for the period:								
Derecognised during the period	(27)	(35)	(198,818)	(198,880)	(27,954)	(17,838)	(875,220)	(921,012)
Other movements	-	-	12,490	12,490	-	-	(824)	(824)
Total movements with impact on credit loss allowance charge for the period	**(27)**	**(35)**	**(186,328)**	**(186,390)**	**(27,954)**	**(17,838)**	**(876,044)**	**(921,836)**
At 31 December 2021	**-**	**-**	**33,916**	**33,916**	**-**	**-**	**72,005**	**72,005**

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 1 January 2020	**24,249**	**-**	**-**	**24,249**	**954,737**	**-**	**-**	**954,737**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(24)	1,686	-	1,662	(28,101)	28,101	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(24,053)	-	243,104	219,051	(994,484)	-	994,484	-
Issued during the period	86	-	-	86	212,305	-	-	212,305
Derecognised during the period	(241)	(1,407)	(28,925)	(30,573)	(116,098)	(10,100)	(96,592)	(222,790)
Other movements	10	(244)	6,065	5,831	(405)	(163)	50,157	49,589
Total movements with impact on credit loss allowance charge for the period	**(24,222)**	**35**	**220,244**	**196,057**	**(926,783)**	**17,838**	**948,049**	**39,104**
At 31 December 2020	**27**	**35**	**220,244**	**220,306**	**27,954**	**17,838**	**948,049**	**993,841**

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 31 December 2020	**95,319**	**83,601**	**1,140,404**	**1,319,324**	**21,213,704**	**627,171**	**2,137,158**	**23,978,033**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(6,202)	3,826	-	(2,376)	(324,364)	324,364	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(6,695)	(38,597)	136,764	91,472	(314,115)	(219,233)	533,348	-
From Stage 3 to Stage 2	-	-	(146)	(146)	-	(485)	485	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	36	(503)	-	(467)	23,504	-	(23,504)	-
Issued during the period	115,223	10,546	43,221	168,990	23,750,558	-	-	23,750,558
Derecognised during the period	(49,219)	(41,757)	(129,133)	(220,109)	(19,735,337)	(378,220)	(496,160)	(20,609,717)
Other movements	(30,070)	(2,440)	133,304	100,794	(5,065)	(141)	(772)	(5,978)
Total movements with impact on credit loss allowance charge for the period	**23,073**	**(68,925)**	**184,010**	**138,158**	**3,395,181**	**(273,715)**	**13,397**	**3,134,863**
At 31 December 2021	**118,392**	**14,676**	**1,324,414**	**1,457,482**	**24,608,885**	**353,456**	**2,150,555**	**27,112,896**

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**
Consumer loans								
At 1 January 2020	**63,226**	**25,245**	**691,655**	**780,126**	**32,663,674**	**132,556**	**1,284,633**	**34,080,863**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(261)	63,647	-	63,386	(652,097)	652,097	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(550)	(3,349)	584,111	580,212	(1,376,232)	(84,042)	1,460,274	-
From Stage 3 to Stage 2	-	1,114	(3,184)	(2,070)	-	15,920	(15,920)	
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	114	-	(22,765)	(22,651)	113,822	-	(113,822)	-
Issued during the period	35,935	-	-	35,935	21,334,499	-	-	21,334,499
Derecognised during the period	(3,138)	(3,053)	(109,414)	(115,605)	(30,854,313)	(89,320)	(508,370)	(31,452,003)
Other movements	(7)	(3)	1	(9)	(15,649)	(40)	30,363	14,674
Total movements with impact on credit loss allowance charge for the period	**32,093**	**58,356**	**448,749**	**539,198**	**(11,449,970)**	**494,615**	**852,525**	**(10,102,830)**
At 31 December 2020	**95,319**	**83,601**	**1,140,404**	**1,319,324**	**21,213,704**	**627,171**	**2,137,158**	**23,978,033**

During 2021, the Company has financed Optimal Electronics healthy portfolio at a fair value of AZN 3,496,293 (2020: AZN 10,024,134) 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.

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
Business loans								
At 31 December 2020	**59**	**65**	**8,391**	**8,515**	**12,194**	**3,861**	**27,685**	**43,740**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(33)	-	1,848	1,815	(7,633)	-	7,633	-
Issued during the period	2,091	-	-	2,091	212,196	-	-	212,196
Derecognised during the period	-	(65)	(3,933)	(3,998)	(2,783)	(3,861)	(12,755)	(19,399)
Other movements	(23)	-	3,227	3,204	(108)	-	(47)	(155)
Total movements with impact on credit loss allowance charge for the period	**2,035**	**(65)**	**1,142**	**3,112**	**201,672**	**(3,861)**	**(5,169)**	**192,642**
At 31 December 2021	**2,094**	**-**	**9,533**	**11,627**	**213,866**	**-**	**22,516**	**236,382**

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 1 January 2020	**99**	**-**	**-**	**99**	**35,190**	**-**	**-**	**35,190**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(38)	1,119	-	1,081	(15,989)	15,989	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(132)	-	8,391	8,259	(30,114)	-	30,114	-
Issued during the period	130	-	-	130	25,047	-	-	25,047
Derecognised during the period	-	(1,054)	-	(1,054)	(1,940)	(12,159)	(2,795)	(16,894)
Other movements	-	-	-	-	-	31	366	397
Total movements with impact on credit loss allowance charge for the period	**(40)**	**65**	**8,391**	**8,416**	**(22,996)**	**3,861**	**27,685**	**8,550**
At 31 December 2020	**59**	**65**	**8,391**	**8,515**	**12,194**	**3,861**	**27,685**	**43,740**

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 2021:

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				
Less than 30 days	-	-	-	-
30 to 90 days overdue	-	-	-	-
91-180 days overdue	-	-	23,197	23,197
181 to 360 days overdue	-	-	-	-
Over 360 days overdue	-	-	194,520	194,520
Gross carrying amount	**-**	**-**	**217,717**	**217,717**
Credit loss allowance	-	-	(134,262)	(134,262)
Carrying amount	**-**	**-**	**83,455**	**83,455**

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2021:

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				
Less than 30 days	-	-	-	-
30 to 90 days overdue	-	-	-	-
91-180 days overdue	-	-	-	-
181 to 360 days overdue	-	-	-	-
Over 360 days overdue	-	-	72,005	72,005
Gross carrying amount	**-**	**-**	**72,005**	**72,005**
Credit loss allowance	-	-	(33,916)	(33,916)
Carrying amount	**-**	**-**	**38,089**	**38,089**

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
Consumer loans				
Less than 30 days	24,608,885	160,989	28,826	24,798,700
30 to 90 days overdue	-	192,466	15,111	207,577
91-180 days overdue	-	-	166,925	166,925
181 to 360 days overdue	-	-	219,999	219,999
Over 360 days overdue	-	-	1,719,695	1,719,695
Gross carrying amount	**24,608,885**	**353,455**	**2,150,556**	**27,112,896**
Credit loss allowance	(118,392)	(14,676)	(1,324,414)	(1,457,482)
Carrying amount	**24,490,493**	**338,779**	**826,142**	**25,655,414**
Business loans				
Less than 30 days	213,865	-	-	213,865
30 to 90 days overdue	-	-	-	-
91-180 days overdue	-	-	6,201	6,201
181 to 360 days overdue	-	-	-	-
Over 360 days overdue	-	-	16,316	16,316
Gross carrying amount	**213,865**	**-**	**22,517**	**236,382**
Credit loss allowance	(2,093)	-	(9,534)	(11,627)
Carrying amount	**211,772**	**-**	**12,983**	**224,755**

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2020:

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				
Less than 30 days	355,983	-	-	355,983
30 to 90 days overdue	-	-	-	-
91-180 days overdue	-	-	-	-
181 to 360 days overdue	-	-	36,940	36,940
Over 360 days overdue	-	-	198,950	198,950
Gross carrying amount	**355,983**	**-**	**235,890**	**591,873**
Credit loss allowance	(2,624)	-	(94,795)	(97,419)
Carrying amount	**353,359**	**-**	**141,095**	**494,454**

8 Loans to Customers (Continued)

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2020:

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				
Less than 30 days	27,954	17,838	208,585	254,377
30 to 90 days overdue	-	-	-	-
91-180 days overdue	-	-	-	-
181 to 360 days overdue	-	-	739,464	739,464
Over 360 days overdue	-	-	-	-
Gross carrying amount	**27,954**	**17,838**	**948,049**	**993,841**
Credit loss allowance	(27)	(35)	(220,244)	(220,306)
Carrying amount	**27,927**	**17,803**	**727,805**	**773,535**
Consumer loans				
Less than 30 days	21,213,705	275,330	10,282	21,499,317
30 to 90 days overdue	-	351,840	27,857	379,697
91-180 days overdue	-	-	334,663	334,663
181 to 360 days overdue	-	-	646,233	646,233
Over 360 days overdue	-	-	1,118,123	1,118,123
Gross carrying amount	**21,213,705**	**627,170**	**2,137,158**	**23,978,033**
Credit loss allowance	(95,319)	(83,601)	(1,140,404)	(1,319,324)
Carrying amount	**21,118,386**	**543,569**	**996,754**	**22,658,709**
Business loans				
Less than 30 days	12,193	3,861	12,855	28,909
30 to 90 days overdue	-	-	14,831	14,831
91-180 days overdue	-	-	-	-
181 to 360 days overdue	-	-	-	-
Over 360 days overdue	-	-	-	-
Gross carrying amount	**12,193**	**3,861**	**27,686**	**43,740**
Credit loss allowance	(58)	(66)	(8,391)	(8,515)
Carrying amount	**12,135**	**3,795**	**19,295**	**35,225**

8 Loans to Customers (Continued)

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

As of 31 December 2021 and 31 December 2020 the Company had no single borrower with outstanding loan balance above 10% of total capital.

In accordance with the Central Bank of the Republic of Azerbaijan requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the expected credit losses.

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 2021:

In Azerbaijani Manats	**Loans to SME**
Loans collateralised by:	
- residential real estate	83,455
- other assets	-
Total	**83,455**
Unsecured exposures	-
Total carrying value loans to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**83,455**

Description of collateral held for loans to individuals carried at amortised cost is as follows at 31 December 2021:

In Azerbaijani Manats	**Real estate loans**	**Consumer loans**	**Business loans**	**Total**
Loans collateralised by:				
- residential real estate	38,089	-	-	38,089
- other assets	-	24,479,399	224,755	24,704,154
Loans guaranteed by Optimal Electronics	-	734,776	-	734,776
Total	**38,089**	**25,214,175**	**224,755**	**25,477,019**
Unsecured exposures	-	441,239	-	441,239
Total carrying value loans to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**38,089**	**25,655,414**	**224,755**	**25,918,258**

8 Loans to Customers (Continued)

Information about collateral for loans to corporate customers is as follows at 31 December 2020:

In Azerbaijani Manats	Loans to SME
Loans collateralised by:	
- residential real estate	141,096
- other assets	353,358
Total	**494,454**
Unsecured exposures	-
Total carrying value loans to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**494,454**

Information about collateral of loans to individuals carried at amortised cost is as follows at 31 December 2020:

In Azerbaijani Manats	Real estate loans	Consumer loans	Business loans	Total
Loans collateralised by:				
- residential real estate	773,535	-	-	773,535
- other assets	-	11,225,199	35,225	11,260,424
Loans guaranteed by Optimal Electronics	-	5,374,568	-	5,374,568
Total	**773,535**	**16,599,767**	**35,225**	**17,408,527**
Unsecured exposures	-	6,058,942	-	6,058,942
Total carrying value loans to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**773,535**	**22,658,709**	**35,225**	**23,467,469**

Other assets mainly include equipment and furniture. 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 2021 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	83,455	623,500	-	-
Loans to individuals carried at AC				
Real estate loans	38,089	111,390	-	-
Consumer loans	25,126,496	56,979,011	528,918	87,513
Business loans	191,991	592,865	32,764	26,500

8 Loans to Customers (Continued)

The effect of collateral at 31 December 2020 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	141,096	623,500	353,358	-
Loans to individuals carried at AC				
Real estate loans	773,535	1,954,305	-	-
Consumer loans	21,591,607	50,566,464	1,067,102	204,875
Business loans	22,507	40,150	12,718	7,000

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 2020	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 1 January 2020	**4,706,371**	**301,105**	**-**	**19,521**	**5,026,997**
Additions	-	55,036	52,000	-	107,036
Disposals	-	(8,737)	-	-	(8,737)
Depreciation/amortization charge	(260,000)	(140,613)	(6,067)	(3,143)	(409,823)
Depreciation charge of disposal	-	8,737	-	-	8,737
Carrying amount at 31 December 2020	**4,446,371**	**215,528**	**45,933**	**16,378**	**4,724,210**
Cost at 31 December 2020	6,500,000	736,239	85,920	31,432	7,353,591
Accumulated depreciation/amortization	(2,053,629)	(520,711)	(39,987)	(15,054)	(2,629,381)
Carrying amount at 31 December 2020	**4,446,371**	**215,528**	**45,933**	**16,378**	**4,724,210**
Additions	-	40,479	-	-	40,479
Depreciation/amortization charge	(260,000)	(92,101)	(10,400)	(3,143)	(365,644)
Carrying amount at 31 December 2021	**4,186,371**	**163,906**	**35,533**	**13,235**	**4,399,045**
Cost at 31 December 2021	6,500,000	776,718	85,920	31,432	7,394,070
Accumulated depreciation/amortization	(2,313,629)	(612,812)	(50,387)	(18,198)	(2,995,026)
Carrying amount at 31 December 2021	**4,186,371**	**163,906**	**35,533**	**13,234**	**4,399,044**

Intangible assets at 31 December 2021 and 2020 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.

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

In Azerbaijani Manats	**Buildings**
Carrying amount at 1 January 2020	**369,596**
Additions	41,523
Depreciation charge	(94,874)
Carrying amount at 31 December 2020	**316,245**
Additions	80,585
Depreciation charge	(104,275)
Carrying amount at 31 December 2021	**292,555**

The recognised lease liabilities classified as follows:

In Azerbaijani Manats	**31 December 2021**	**31 December 2020**
Current portion	115,903	91,572
Non-current portion	214,603	257,248
Total lease liabilities	**330,506**	**348,820**

Interest expense on lease liabilities was 38,892 AZN (2020: AZN 41,533).

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

In Azerbaijani Manats	**2021**	**2020**
Expense relating to short-term leases	27,533	37,835
Expense relating to leases of low-value assets that are not shown above as short-term leases	-	-

Total cash outflow for leases in 2021 was 165,324 AZN (2020: AZN 90,161).

11 Other Assets

In Azerbaijani Manats	31 December 2021	31 December 2020
Receivables from payment providers	1,387,803	531,575
Less credit loss allowance	(183,426)	-
Total financial assets	**1,204,377**	**531,575**
Prepayments for services	132,246	87,303
Prepayments for fixed assets	8,441	5,560
Total other assets	**1,345,064**	**624,438**

The table below contains an analysis of the credit risk exposure of other financial assets at AC. The carrying amount of other financial assets at AC at 31 December 2021 below also represents the Company's maximum exposure to credit risk on these assets:

In Azerbaijani Manats	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Receivables from payment providers				
At 31 December 2020	**531,575**	**-**	**-**	**531,575**
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(10,318)	10,318	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(156,875)	-	156,875	-
Derecognised during the period	(33,831,868)	(10,318)		(33,842,186)
New recognized assets	33,972,447	725,967	-	34,698,414
Credit loss allowance	-	(26,551)	(156,875)	(183,426)
At 31 December 2021	**504,961**	**699,416**	**-**	**1,204,377**

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 2021 is good. Refer to Note 23 for the description of the Company's credit risk grading system.

12 Debt Securities in Issue

In Azerbaijani Manats	31 December 2021	31 December 2020
Bonds issued on domestic market	5,643,465	1,505,958
Total debt securities in issue	**5,643,465**	**1,505,958**

On 17 June 2021 and 26 August 2021, the Company has issued corporate unsecured bond in amount of AZN 1,500,000 and AZN 4,000,000 respectively, 5,500 bonds with face value of AZN 1,000. These issues were registered with the State Committee for Securities under identification code AZ2007020608 and AZ2008020607. Bond have 12 months and 36 months of maturity with an annual coupon rate of 11% and 10% respectively, interest in paid monthly. ABB-Invest CJSC and AzFinance Investment Company are the underwriters for the issue.

On 17 July 2020, the Company has issued corporate unsecured bonds in amount of AZN 1,500,000, 1,500 bonds with face value of AZN 1,000. These issues were registered with the State Committee for Securities under identification code AZ2003020609. Bonds have 12 months of maturity with an annual coupon rate of 10.5% payable every other month. UniCapital Investment Company is the underwriter for the issues. Outstanding balance on corporate bonds includes 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	Currency	Maturity	Nominal interest rate %	31 December 2021	31 December 2020
International Bank of Azerbaijan	AZN	4 October 2021	11%	-	5,783,581
Pasha Bank OJSC	AZN	6 December 2022	11%	9,415,364	6,664,570
Total loan from banks				**9,415,364**	**12,448,151**

The above balances include principal amounts and accrued interest payables as at 31 December 2021 and 2020. Accrued interest payable as at 31 December 2021 was AZN 53,662 (2020: AZN 51,604).

Interest rates for the borrowings represent market rates for the years ended 31 December 2021 and 2020. The carrying value of loan from banks approximates fair value at 31 December 2021 and 31 December 2020.

Financial and non-financial loan covenants have not been stipulated by the aforementioned loan agreements.

Currency, maturity and interest rate analyses of loans from banks are disclosed in Note 23.

14 Payables to Partners

In Azerbaijani Manats	31 December 2021	31 December 2020
Payables to "Embawood" LLC	122,845	98,735
Payables to other partners	125,658	117,332
Total payables to partners	**248,503**	**216,067**

15 Share Capital

As at 31 December 2021 share capital authorized consisted of 10,000 ordinary shares with par value of AZN 1,000 each (2020: 10,000 ordinary shares with par value of AZN 1000 each). There were no issued and outstanding shares as at 31 December 2021 and 2020.

16 Other Liabilities

In Azerbaijani Manats	31 December 2021	31 December 2020
Payable to the employees	137,075	215,637
Other	52,086	45,301
Total financial other liabilities	**189,161**	**260,938**
Taxes payable, other than income tax	78,751	43,062
Other	4,538	37,455
Total other liabilities	**272,450**	**341,455**

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	2021	2020
Interest income		
Loans to customers at AC	9,626,587	10,088,437
Total interest income calculated using the effective	**9,626,587**	**10,088,437**
Interest and other similar expense		
Loans from banks	1,479,938	1,821,881
Debt securities in issue	312,507	223,747
Lease liabilities	38,892	41,532
Total interest and other similar expense	**1,831,337**	**2,087,160**
Net interest income	**7,795,250**	**8,001,277**

18 Fee and Commission Expense

In Azerbaijani Manats	2021	2020
Fee and commission expense		
Fee and commission expense not relating to financial instruments at fair value through profit or loss		
- Pay point operations	440,034	391,022
- Other	68,841	74,421
Total fee and commission expense	**508,875**	**465,443**

19 Administrative and Other Operating Expenses

In Azerbaijani Manats	2021	2020
Staff cost	2,110,463	2,094,636
Depreciation and amortization	365,644	409,823
Depreciation of right of use assets	104,275	94,874
Communication expense	80,850	76,813
Professional services	72,373	65,776
Advertisement expenses	47,794	204,140
Tax expense	43,202	46,496
Rent expense	27,533	37,835
Repair and maintenance	23,717	19,524
Agency costs	6,036	8,277
Other expenses	107,178	172,057
Total administrative and other operating expenses	**2,989,065**	**3,230,251**

Included in staff costs are social security contributions in the amount of AZN 306,011 (2020: AZN 292,287).

20 Income Taxes

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

Income tax expense comprises the following:

In Azerbaijani Manats	2021	2020
Current tax	910,051	860,376
Deferred tax	(25,979)	82,252
Income tax expense for the year	**884,072**	**942,628**

(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 2021 and 2020 income is 20%. A reconciliation between the expected and the actual taxation charge is provided below.

In Azerbaijani Manats	2021	2020
Profit before tax	**4,219,682**	**3,772,041**
Theoretical tax charge at statutory rate of 20%	843,936	754,408
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	40,136	188,220
Income tax expense for the year	**884,072**	**942,628**

(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.

20 Income taxes (Continued)

The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2020: 20%).

In Azerbaijani Manats	1 January 2021	Credited/ (charged) profit or loss	31 December 2021
Tax effect of deductible temporary differences			
Loans to customers	(46,509)	36,590	(9,919)
Property, equipment, and intangible assets	(104,361)	978	(103,383)
Right of use assets	(62,663)	4,738	(57,925)
Lease liabilities	69,764	(3,663)	66,101
Other liabilities	21,796	(12,664)	9,132
Net deferred tax liability	**(121,973)**	**25,979**	**(95,994)**

The tax effect of the movements in the temporary differences for the year ended 31 December 2020 were:

In Azerbaijani Manats	1 January 2020	Credited/ (charged) profit or loss	31 December 2020
Tax effect of deductible temporary differences			
Loans to customers	42,324	(88,833)	(46,509)
Property, equipment, and intangible assets	(102,808)	(1,553)	(104,361)
Right of use assets	(64,919)	2,256	(62,663)
Lease liabilities	65,350	4,414	69,764
Other liabilities	20,332	1,464	21,796
Net deferred tax liability	**(39,721)**	**(82,252)**	**(121,973)**

21 Dividends

In Azerbaijani Manats	2021 Ordinary	2020 Ordinary
Dividends payable at 1 January	-	-
Dividends declared during the year	3,000,000	3,000,000
Dividends paid during the year	(3,000,000)	(3,000,000)
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 2021 is set out below:

In Azerbaijani Manats	Retail banking	Corporate banking	Total
2021			
External revenue:			
- Interest income	9,581,846	44,741	9,626,587
- Fee and commission income	37,357	140,192	177,549
Total revenue	**9,619,203**	**184,933**	**9,804,136**
Interest expense	(1,796,793)	(34,544)	(1,831,337)
Credit loss allowance	45,119	(36,843)	8,276
Fee and commission expense	(499,276)	(9,599)	(508,875)
Foreign exchange translation gains less losses	(793)	-	(793)
Administrative and other operating expenses	(2,932,683)	(56,382)	(2,989,065)
Segment result	**4,434,777**	**47,565**	**4,482,342**

Segment information for the reportable segments for the year ended 31 December 2020 is set out below:

In Azerbaijani Manats	Retail banking	Corporate banking	Total
2020			
External revenue:			
- Interest income	9,976,974	111,463	10,088,437
- Fee and commission income	44,591	172,575	217,166
Total revenue	**10,021,565**	**284,038**	**10,305,603**
Interest expense	(2,064,100)	(23,060)	(2,087,160)
Credit loss allowance	(677,917)	(97,419)	(775,336)
Fee and commission expense	(460,300)	(5,143)	(465,443)
Foreign exchange translation gains less losses	(872)	-	(872)
Administrative and other operating expenses	(3,194,561)	(35,690)	(3,230,251)
Segment result	**3,623,815**	**122,726**	**3,746,541**

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.

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

23 Financial Risk Management (Continued)

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.

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).

23 Financial Risk Management (Continued)

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

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

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

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

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.

23 Financial Risk Management (Continued)

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

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

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

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Company uses different statistical approaches depending on the segment and product type to calculated lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data.LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement is calculation of LGD on a portfolio basis based on recovery statistics; with details below:

- 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 2021 and 2020:

Rating	LGD (2021)	LGD (2020)
4	29.81%	30.06%
5	37.67%	36.47%
6	47.10%	45.28%
7	65.47%	64.06%
8	82.32%	81.80%
9	100.00%	100.00%

23 Financial Risk Management (Continued)

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.

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 2021, such loans represented 70% of total loans to customers (31 December 2020: 55%). 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 3% of total loans to customers as at 31 December 2021 (31 December 2020: 21%). 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.

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

	At 31 December 2021			At 31 December 2020		
In Azerbaijani Manats	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
AZN	27,586,287	(15,827,000)	11,759,287	25,847,447	(14,779,933)	11,067,514
US Dollars	-	-	-	-	-	-
Euros	127	-	127	336	-	336
Total	**27,586,414**	**(15,827,000)**	**11,759,414**	**25,847,783**	**(14,779,933)**	**11,067,850**

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

	At 31 December 2021	At 31 December 2020
In Azerbaijani Manats	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 20% (2020: strengthening by 20%)	-	-
US Dollar weakening by 20% (2020: weakening by 20%)	-	-
EUR strengthening by 20% (2020: strengthening by 20%)	25	67
EUR weakening by 20% (2020: weakening by 20%)	(25)	(67)
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.

23 Financial Risk Management (Continued)

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

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

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

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

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 2021						
Total financial assets	3,525,669	11,435,30	8,083,066	2,957,671	1,584,701	27,586,414
Total financial liabilities	(1,949,922)	(7,420,004)	(1,804,807)	(4,214,603)	(437,664)	(15,827,000)
Net interest sensitivity gap at 31 December 2021	**1,575,747**	**4,015,303**	**6,278,259**	**(1,256,932)**	**1,147,037**	**11,759,414**
31 December 2020						
Total financial assets	2,975,352	11,499,51	7,221,975	2,265,085	1,885,860	25,847,783
Total financial liabilities	(3,330,584)	(4,830,478)	(5,884,618)	(257,248)	(477,005)	(14,779,933)
Net interest sensitivity gap at 31 December 2020	**(355,232)**	**6,669,033**	**1,337,357**	**2,007,837**	**1,408,855**	**11,067,850**

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.	2021 AZN	2020 AZN
Assets		
Loans to customers	28-37%	28-37%
Liabilities		
Loans from banks	11%	11%
Debt securities in issue	10-10.50%	11%
Lease liabilities	10.80-11.05%	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 31 December 2021 and 2020, 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.

23 Financial Risk Management (Continued)

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.

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 2021 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross lease obligations (before deducting future finance charges), gross loan commitments. 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 2021 is as follows:

In Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Total
Assets					
Cash and cash equivalents	380,324	-	-	-	380,324
Loans to customers	3,989,763	13,162,042	9,402,866	3,512,487	30,067,158
Other financial assets	1,204,377	-	-	-	1,204,377
Total	**5,574,464**	**13,162,042**	**9,402,866**	**3,512,487**	**31,651,859**
Liabilities					
Loans from banks	(1,848,633)	(6,089,703)	(1,832,402)	-	(9,770,738)
Debt securities in issue	-	(1,573,501)	-	(5,076,667)	(6,650,168)
Payables to Embawood	(122,845)	-	-	-	(122,845)
Payables to other partners	(125,658)	-	-	-	(125,658)
Lease liabilities	(9,180)	(47,182)	(59,541)	(214,603)	(330,506)
Other financial liabilities	(189,161)	-	-	-	(189,161)
Total potential future payments for financial obligations	**(2,295,477)**	**(7,710,386)**	**(1,891,943)**	**(5,291,270)**	**(17,189,076)**
Liquidity gap arising from financial instruments	**3,278,987**	**5,451,656**	**7,510,923**	**(1,778,783)**	**14,462,783**

23 Financial Risk Management (Continued)

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

In Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Total
Assets					
Cash and cash equivalents	1,354,284	-	-	-	1,354,284
Loans to customers	3,498,468	13,461,133	8,631,537	2,750,026	28,341,164
Other financial assets	531,575	-	-	-	531,575
Total	**5,384,327**	**13,461,133**	**8,631,537**	**2,750,026**	**30,227,023**
Liabilities					
Loans from banks	(3,791,474)	(7,024,682)	(2,025,859)	-	(12,842,015)
Debt securities in issue	-	-	(1,590,750)	-	(1,590,750)
Payables to Embawood	(98,735)	-	-	-	(98,735)
Payables to other partners	(117,332)	-	-	-	(117,332)
Lease liabilities	(7,252)	(37,275)	(47,045)	(257,248)	(348,820)
Other financial liabilities	(260,938)	-	-	-	(260,938)
Total potential future payments for financial obligations	**(4,275,731)**	**(7,061,957)**	**(3,663,654)**	**(257,248)**	**(15,258,590)**
Liquidity gap arising from financial instruments	**1,108,596**	**6,399,176**	**4,967,883**	**2,492,778**	**14,968,433**

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 months to 1 year	More than 1 year	Total
At 31 December 2021					
Financial assets	5,110,370	11,435,307	8,083,066	2,957,671	27,586,414
Financial liabilities	(2,387,586)	(7,420,004)	(1,804,807)	(4,214,602)	(15,826,999)
Net liquidity gap based on expected maturities	**2,722,784**	**4,015,303**	**6,278,259**	**(1,256,931)**	**11,759,415**
At 31 December 2020					
Financial assets	4,861,212	11,499,511	7,221,975	2,265,085	25,847,783
Financial liabilities	(3,807,589)	(4,830,478)	(5,884,618)	(257,248)	(14,779,933)
Net liquidity gap based on expected maturities	**1,053,623**	**6,669,033**	**1,337,357**	**2,007,837**	**11,067,850**

23 Financial Risk Management (Continued)

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

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

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 2021, 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 2021 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.

26 Fair Value Disclosures (Continued)

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

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

	31 December 2021		31 December 2020	
In Azerbaijani Manats	Level 2 fair value	Carrying value	Level 2 fair value	Carrying value
ASSETS				
Loans to customers at AC				
- Corporate loans	83,455	83,455	494,454	494,454
- Loans to individuals -consumer loans	25,655,414	25,655,414	22,658,709	22,658,709
- Loans to individuals – entrepreneurs	224,755	224,755	35,225	35,225
- Real estate loans	38,089	38,089	773,535	773,535
Cash and cash equivalents				
- Cash and cash equivalents	380,324	380,324	1,354,284	1,354,284
Other financial assets:				
- Receivables from counterparties	1,204,377	1,204,377	531,575	531,575
TOTAL	**27,586,414**	**27,586,414**	**25,847,782**	**25,847,782**

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

	31 December 2021		31 December 2020	
In Azerbaijani Manats	Level 2 fair value	Carrying value	Level 2 fair value	Carrying value
FINANCIAL LIABILITIES				
Loans from banks				
- Loans from banks	9,415,364	9,415,364	12,448,151	12,448,151
Debt securities in issue				
- Bonds issued on domestic market	5,643,465	5,643,465	1,505,958	1,505,958
Payables to Partners				
- Payables to "Embawood" LLC	122,845	122,845	98,735	98,735
- Payables to other partners	125,658	125,658	117,332	117,332
Other financial liabilities	189,161	189,161	260,938	260,938
TOTAL	**15,496,493**	**15,496,493**	**14,431,114**	**14,431,114**

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 2021:

In Azerbaijani Manats	AC	Total
ASSETS		
Cash and cash equivalents	380,324	380,324
Loans to customers		
- Loans to SME	83,455	83,455
- Real estate loans	38,089	38,089
- Consumer loans	25,655,414	25,655,414
- Business loans	224,755	224,755
Other financial assets		
- Trade receivables	1,204,377	1,204,377
TOTAL FINANCIAL ASSETS	**27,586,414**	**27,586,414**

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2020:

In Azerbaijani Manats	AC	Total
ASSETS		
Cash and cash equivalents	1,354,284	1,354,284
Loans to customers		
- Loans to SME	494,454	494,454
- Real estate loans	773,535	773,535
- Consumer loans	22,658,709	22,658,709
- Business loans	35,225	35,225
Other financial assets:		
- Trade receivables	531,575	531,575
TOTAL FINANCIAL ASSETS	**25,847,782**	**25,847,782**

As of 31 December 2021 and 31 December 2020, 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 2021, the outstanding balances with related parties were as follows:

In Azerbaijani Manats	Key management personnel	Entities under common control
Loans to customers	41,123	-
Agency costs	-	122,845
Other liabilities	65,939	-

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

In Azerbaijani Manats	Key management personnel	Entities under common control
Loans to customers	48,652	355,982
Agency costs	-	98,735
Other liabilities	77,715	-

Included in the statement of profit or loss and other comprehensive income for the years ended 31 December 2021 and 2020 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	-	-	4,320
Business trip expense	306	-	-

In Azerbaijani Manats	Key management personnel	Entities under common control	Shareholder
Rent expense	-	-	6,120
Business trip expense	520	-	-

Key management compensation is presented below:

	2021	2020
In Azerbaijani Manats	Expense	Expense
Short-term employee benefits	488,596	407,049

29 Events after the Reporting Period

COVID-19 developments. Coronavirus (COVID-19) is an infectious disease caused by a lately discovered coronavirus, which, in just a short time, evolved from a localised outbreak into a global pandemic. In many countries where community transmission led to outbreaks with near exponential growth, governments introduced widespread population-level physical distancing measures and movement restrictions in order to slow spread and set in place other control measures. Physical distancing measures and movement restrictions potentially slowed COVID-19 transmission by limiting contact between people. However, these measures had a profound negative impact on individuals, communities, and societies by bringing social and economic life to a near stop.

The COVID-19 pandemic and its attendant effect on markets caused widespread concern and economic hardship for consumers, businesses and communities across the globe. Moreover, uncertainty surrounding the duration and severity of the crisis made it hard to anticipate how a recovery could unfold.

At the same time, given a certain stability in the dynamics of the spread of the virus in Azerbaijan, the government eased some of the restrictions introduced under the special quarantine regime from 18 January 2021.

To the date of these financial statements were ready for the issue, the Company did not experience significant effect of the COVID-19 developments occurred after the reporting period; the operations of the Company were not disrupted and the management of the Company does not expect any impact of the circumstance described above on their financial statements.

Management considers that the outbreak is a non-adjusting post balance sheet event that does not impact the measurement of assets and liabilities in the financial statements as of 31 December 2021. Government of the Republic of Azerbaijan is in process of continuous monitoring of the current sanitary and epidemiological situation in the world and Azerbaijan, associated with a COVID-19, and it was decided to extend the period of the special quarantine regime in the country until 1 July 2022. To the date these financial statements were ready for the issue, the Company did not experience significant effect of the COVID-19 developments occurred after the reporting period; the operations of the Company were not disrupted, and the management of the Company does not expect any impact of the circumstances described above on their financial statements.

Capital adequacy ratios were maintained at a level higher than regulatory minimums as of the date of issuance of these financial statements. Sensitivity analysis show that existing capital buffers give a confidence to absorb the risks that could appear from further evolution of COVID-19 results.

Dividends. In January 2022 the Company declared and paid dividends to its shareholders in the amount of AZN 3,000,000.