"FINCA AZERBAIJAN" LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION

International Financial Reporting Standards
Financial Statements and
Independent Auditors' Report
For the Year Ended December 31, 2021

"FINCA AZERBAIJAN" LIMITED LIABILITY NON-BANKING CREDIT ORGANIZATION

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INDEPENDENT AUDITORS' REPORT

To the Founder and the Management Board of "FINCA Azerbaijan" Limited Liability Non-Banking Credit Organization (the "Company"):

Opinion

We have audited the financial statements of "FINCA Azerbaijan" Limited Liability Non-Banking Credit Organization (the "Company"), which comprise the statement of financial position as at December 31, 2021, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the statement of financial position as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

The key audit matter

Allowance for expected credit losses on loans to customers

Loans to customers represent 81% of total assets and are stated net of allowance for expected credit losses ("ECL") that are estimated on a regular basis and are sensitive to the assumptions used.

The estimation of expected credit losses requires management to apply significant judgments and estimation techniques to determine the probability of default (PD), projected exposure at default (EAD) and loss arising at default (LGD), considering observed historical data, current economic situation and available forward-looking information.

Credit loss allowance for loans to customers is a key audit matter due to the significance of the balances to the Company's financial position, and the complexity and judgement related to the estimation of ECL under IFRS 9 Financial Instruments.

How was the matter addressed in our audit?

We engaged our own specialists in financial risk management to analyze the key aspects of the Company's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9 Financial Instruments.

To analyze the adequacy of professional judgement and assumptions made by management in relation to allowance for ECL estimate we performed the following procedures:

For loans to customers, we tested the correctness of data inputs for PD, LGD and EAD calculation, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into the appropriate Stages. We agreed to input data into supporting documents on a sample basis.

We also assessed whether the disclosures of the financial statements appropriately reflect the Company's exposure to credit risk.

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 have no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

Baker Tilly Azerbaijan

April 29, 2022
Baku, the Republic of Azerbaijan

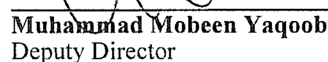
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021
(in thousands of US dollars, unless otherwise indicated)

	Notes	December 31, 2021	December 31, 2020
ASSETS:			
Cash and cash equivalents	6	2,400	3,885
Loans to customers, net	7	17,095	10,556
Property, equipment and intangible assets	8	316	128
Right-of-use assets	9	598	248
Deferred income tax assets	17	305	287
Other assets	10	386	311
Total assets		**21,100**	**15,415**
LIABILITIES AND EQUITY			
LIABILITIES:			
Borrowed funds	11	8,782	5,562
Debt securities issued	12	1,729	-
Lease liabilities	13	575	255
Other liabilities	14, 16	929	478
Total liabilities		**12,015**	**6,295**
EQUITY:			
Share capital		4,205	4,205
Retained earnings		26,433	26,468
Translation reserves		(21,553)	(21,553)
Total equity		**9,085**	**9,120**
TOTAL LIABILITIES AND EQUITY		**21,100**	**15,415**

On behalf of the Management Board:

Timothy Tarrant
Chief Executive Officer

April 29, 2022
Baku, the Republic of Azerbaijan



Muhammad Mobeen Yaqoob
Deputy Director

April 29, 2022
Baku, the Republic of Azerbaijan

The notes on pages 9-66 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2021

(in thousands of US dollars, unless otherwise indicated)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
Interest income	15	4,661	3,229
Interest expense	15	(585)	(385)
Net interest income before recovery of expected credit losses		**4,076**	**2,844**
Recovery of expected credit losses	7	1,598	511
Net interest income		**5,674**	**3,355**
Administrative and other operating expenses	16, 18	(3,928)	(3,235)
Net results from foreign currency derivatives	14	(306)	-
Gain/(loss) from change in fair value of repossessed collaterals		1	(8)
Net fair value gain on financial instruments at initial measurement	7, 11	-	281
Other income, net		76	39
Net non-interest loss		(4,157)	(2,923)
Profit before income tax		**1,517**	**432**
Income tax benefit/(expense)	17	18	(36)
Net profit for the year		**1,535**	**396**
Total comprehensive income for the year		**1,535**	**396**

On behalf of the Management Board:

Timothy Tarrant
Chief Executive Officer

April 29, 2022
Baku, the Republic of Azerbaijan

Muhammad Mobeen Yaqoob
Deputy Director

April 29, 2022
Baku, the Republic of Azerbaijan

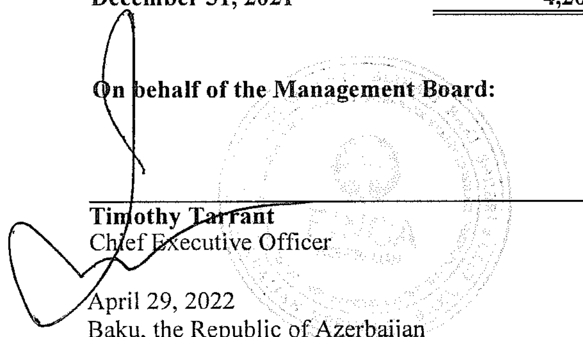
The notes on pages 9-66 form an integral part of these financial statements.

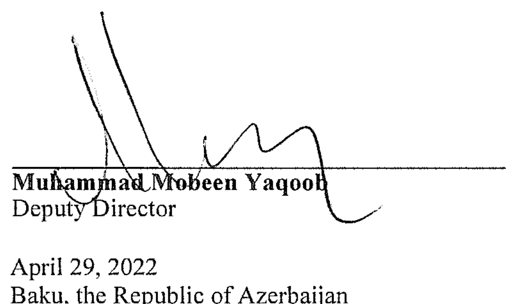
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021

(in thousands of US dollars, unless otherwise indicated)

	Share capital	Retained earnings	Translation reserve	Total equity
January 1, 2020	**4,205**	**28,342**	**(21,553)**	**10,994**
Total comprehensive income for the year	-	396	-	396
Dividends declared	-	(2,270)	-	(2,270)
December 31, 2020	**4,205**	**26,468**	**(21,553)**	**9,120**
Total comprehensive income for the year	-	1,535	-	1,535
Dividends declared	-	(1,570)	-	(1,570)
December 31, 2021	**4,205**	**26,433**	**(21,553)**	**9,085**

On behalf of the Management Board:





Timothy Tarrant
Chief Executive Officer

April 29, 2022
Baku, the Republic of Azerbaijan

Muhammad Mobeen Yaqoob
Deputy Director

April 29, 2022
Baku, the Republic of Azerbaijan

The notes on pages 9-66 form an integral part of these financial statements.

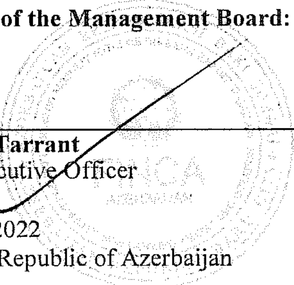
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of US dollars, unless otherwise indicated)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
Cash flows from operating activities:			
Profit before income tax		1,518	432
Adjustments for:			
Recovery of expected credit losses	7	(1,598)	(511)
Depreciation and amortization	8, 9, 16	335	266
Net change in accrued interest		709	251
Net results from foreign currency derivatives	14	306	-
(Gain)/loss from change in fair value of repossessed collaterals		(1)	8
Loss from disposal of property, equipment and intangible assets		-	1
Fair value gain on loans to customers and borrowed funds at initial measurement	7, 11	-	(281)
Cash inflow from operating activities before changes in operating assets and liabilities		**1,269**	**166**
Changes in operating assets and liabilities			
Loans to customers, net		(5,117)	(2,790)
Other assets		(169)	(52)
Other liabilities		148	3
Net cash outflow from operating activities		**(3,869)**	**(2,673)**
Cash flows from investing activities:			
Purchase of property and equipment and intangible assets		(298)	(62)
Net cash outflow from investing activities		**(298)**	**(62)**
Cash flows from financing activities:			
Proceeds from borrowed funds	11	4,106	1,360
Repayment of borrowed funds	11	(1,380)	-
Transaction cost paid on borrowed funds	11	(40)	(6)
Proceeds from debt security issued	12	1,765	-
Transaction cost paid on debt securities issued	12	(36)	-
Repayment of principal portion on lease liabilities	13	(163)	(186)
Dividends paid		(1,570)	(2,270)
Net cash inflow/(outflow) from financing activities		**2,682**	**(1,102)**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)
(in thousands of US dollars, unless otherwise indicated)

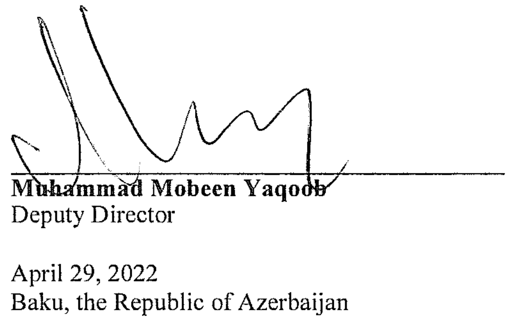
	Notes	Year ended December 31, 2021	Year ended December 31, 2020
Net decrease in cash and cash equivalents		(1,485)	(3,837)
CASH AND CASH EQUIVALENTS, *beginning of the year*	6	3,885	7,722
CASH AND CASH EQUIVALENTS, *end of the year*	6	2,400	3,885

On behalf of the Management Board:



Timothy Tarrant
Chief Executive Officer

April 29, 2022
Baku, the Republic of Azerbaijan



Muhammad Mobeen Yaqoob
Deputy Director

April 29, 2022
Baku, the Republic of Azerbaijan

The notes on pages 9-66 form an integral part of these financial statements.

1. INTRODUCTION

Company and its principal activity

"FINCA Azerbaijan" Limited Liability Non-Banking Credit Organization (the "Company") was incorporated in the Republic of Azerbaijan in 1998. Until November 19, 1999, it was registered as a representative office of FINCA International Inc. in Azerbaijan. On November 19, 1999, the Company was registered with the Azerbaijan Ministry of Justice and obtained the status of a legal entity. The Company was reregistered to comply with the regulations of the Central Bank of the Republic of Azerbaijan, in accordance with which only legal entities can perform lending activities on the territory of Azerbaijan. The new entity obtained a license for lending activities fro
m the Central Bank of Azerbaijan on February 29, 2000. The address of the Company's registered office is 44 Jafar Jabbarly Street, Baku AZ1065, Azerbaijan.

The Company's objective is to provide financial services including loans to representatives of micro, small and medium-sized businesses in the Republic of Azerbaijan and to individuals and groups of individuals engaged in sales and small-scale productive micro-enterprises.

As at December 31, 2021 and 2020, the Company had 22 and 17 branches respectively operating in the Republic of Azerbaijan. The Company had an average of 196 employees in 2021 (2020: 171 employees).

The Company is a subsidiary of FINCA Microfinance Coöperatief U.A., which has a registered office in the Netherlands. The ultimate controlling party of the Company is FINCA International Inc., a not-for-profit corporation, incorporated in New York, United States of America. In October 2010, FINCA International Inc. formed FINCA Microfinance Holding Company LLC ("FMH") to become a 100% owned holding company.

As at December 31, 2021 and 2020, the following shareholders owned the Company:

Shareholder of the Company (Shareholder of the first level)	December 31, 2021, %	December 31, 2020, %
FINCA Microfinance Cooperatief U.A.	100.00	100.00
Total	**100.00**	**100.00**

Ultimate shareholders of the Company	December 31, 2021, %	December 31, 2020, %
FINCA International, Inc.	62.64	62.64
International Finance Corporation	14.38	14.38
Kreditanstalt für Wiederaufbau	8.94	8.94
FMO (Nederlandse Financierings Maatschappij voor Ontwikkelingslanden N.V.)	7.31	7.31
Triple Jump, acting for ASN-NOVIB FONDS	1.68	1.68
Credit Suisse Microfinance Fund Management Company, acting for responsibility Global Microfinance Fund	2.98	2.98
Triodos Investment Management, representing: (i) Triodos Custody B.V. in its capacity as custodian of Triodos Fair Share Fund; and (ii) Triodos SICAV II – Triodos Microfinance Fund	2.07	2.07
Total	**100.00**	**100.00**

Operating environment of the Company

The Company's operations are conducted in the Republic of Azerbaijan.

In 2020, the global economy was negatively impacted by the spread of the coronavirus pandemic. Significant restrictions on travel and movement of individuals and the closure of non-essential businesses have either been imposed in most countries or have happened as a result of the pandemic. This has led to significant declines in GDP in most if not all large economically strong countries which the Republic of Azerbaijan is in a trade relationship with. Starting from June 2020, many countries including the Republic of Azerbaijan demonstrated improvement in the signs of the pandemic and certain restrictions were lifted subsequently.

As a result, a recovery in global financial and commodity markets was observed. However, subsequently, the number of reported cases significantly increased in the Republic of Azerbaijan, and the government introduced new restrictions from mid-December 2020.

The restrictive lock-down measures to combat COVID-19 in the country significantly reduced economic activity and aggregate spending levels. Certain segments of the economy, such as hotels, transport, travel, entertainment and many other businesses also international trade much affected by these measures.

With the start of vaccination of the Azerbaijani population on January 16, 2021 the government of the Republic of Azerbaijan decided to gradually eliminate the special quarantine regime measures introduced in the previous year to combat the COVID-19 outbreak, such as travel restrictions, closure of business and other venues, lockdowns of certain areas throughout the country.

The Company has significant exposure to the economy and the level of international energy prices.

Oil prices have decreased significantly due to the substantial reduction in oil consumption in the pandemic environment but demonstrated stable growth during the second quarter of 2020, however, prices for energy resources gradually went up as a result of the recovery of the world economy in 2021.

The Company's operations are conducted mainly in the Republic of Azerbaijan. Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of Azerbaijan's economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government as well as crude oil prices and the stability of Azerbaijani Manat. Although the economy of the Republic of Azerbaijan is particularly sensitive to oil and gas prices, in recent years, the Government of the Republic of Azerbaijan initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce its dependence on the oil and gas sector. GDP in Azerbaijan was USD 54.62 billion during the year 2021, according to the State Statistical Committee of the Republic of Azerbaijan. In the long-term, the Azerbaijan GDP is projected to trend around USD 54.73 billion in 2022 and USD 55.98 billion in 2023, according to the econometric models.

The government continued its monetary policy with respect to the stability of Azerbaijani Manat as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy continued in 2021 with the aim of maintaining macroeconomic stability. The Central Bank of the Republic of Azerbaijan has changed the refinancing rate several times during the year and the range was between 6.25% - 7.25% with a steady increase in rates.

The Company's management is monitoring changes in the macroeconomic environment and taking precautionary measures it considers necessary in order to support the sustainability and development of the Company's business in the foreseeable future.

International credit rating agencies regularly evaluate the credit rating of the Republic of Azerbaijan. Fitch and S&P evaluated the rating of the Republic of Azerbaijan as "BB+". Moody's Investors Service set a "Ba2" credit rating for the country.

The future economic growth of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The Management is unable to predict, all developments in the economic environment which would have an impact on the Company's operations and consequently what effect, if any, they could have on the financial position of the Company. The management is currently performing sensitivity analyses under different oil price scenarios and elaborating relevant action plans for maintaining the sustainability of the business.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements for the year ended December 31, 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Going concern

These financial statements have been prepared on the assumption that the Company is a going concern and will continue in operation for the foreseeable future.

Management views the Company as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations of the Republic of Azerbaijan. Accordingly, assets and liabilities are recorded on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the Company's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern.

Management's assessment of the going concern assumption involves making a judgment, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain.

Other basis of presentation criteria

These financial statements are presented in thousands of US dollars ("USD"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except measurement at fair value of certain financial instruments.

The Company maintains its accounting records in accordance with the laws of the Republic of Azerbaijan. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Offsetting

Financial assets and financial 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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of profit or loss unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Financial instruments - key measurement terms

Depending on their classification, financial instruments are carried at fair value or amortized cost as described below.

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

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

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

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

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method is a method of allocating the interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized 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.

Initial recognition of financial instruments

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

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 either observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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 the trade date, which is the date when the Company commits to deliver a financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Classification of financial instruments

A financial asset is classified as measured at: amortized cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL").

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVTOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to the cash flows from specified assets (e.g., non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g., periodical reset of interest rates.

Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. The reclassification has a prospective effect.

Financial assets impairment – credit loss allowance for ECL

The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVTOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Company measures ECL and recognizes 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. For loan commitments and financial guarantees, a separate provision for ECL is recognized as a liability in the statement of financial position. For debt instruments at FVTOCI, changes in amortized cost, net of allowance for ECL, are recognized in profit or loss and other changes in carrying value are recognized in OCI as gains less losses on debt instruments at FVTOCI.

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 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 22 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 22. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired. Note 22 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.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVTOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Derecognition of financial assets

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at calls with Companies, and other short-term highly liquid investments with original maturities of three months or less. 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. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Loans to customers, net

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 and advances to customers into one of the following measurement categories:

(i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and
(ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVTOCI are measured at FVTPL.

Write-off

Financial assets are written off when the Company has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event.

The Company may apply enforcement activities to financial assets written off. Recoveries resulting from the Company's enforcement activities will result in gain from the reversal of ECL.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Borrowed funds

Borrowed funds are initially recognized at cost, being the fair value of the consideration received, net of issue costs associated with the borrowing. After initial recognition, interest-bearing borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the income statement when the liabilities are derecognized or impaired, as well as through the amortization process.

Derivative financial instrument

Foreign exchange derivative financial instrument entered into by the Company is traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivatives have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term.

If the ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses.

At each reporting date, the Company assesses whether there is any indication of impairment of property and equipment. If such indication exists, the Company 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. Where the carrying amount of property and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as an impairment loss to the statement of profit or loss.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and recorded as gain/(loss) in the statement of profit or loss.

Repairs and maintenance are charged to the statement of profit or loss when the expense is incurred.

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Furniture and office equipment	20-33%
Computer equipment	33%
Vehicles	20%
Other assets	20%
Right-of-use assets	over the term of the underlying lease

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets include investment into a software license and its customization.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

De-recognition of intangible assets. An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from the de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill. At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Repossessed collateral

The Company obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Company a claim on these assets for both existing and future customer liabilities.

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed collateral is initially recognized at an amount equal to the carrying amount of a loan for which it was pledged. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Recognition of interest income and expense

Interest income and expense are recorded for debt instruments measured at amortized cost or at FVTOCI 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.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

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

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the Republic of Azerbaijan state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Company does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan. In addition, the Company has no post-retirement benefits or other significant compensated benefits requiring accrual.

Operating taxes

The Republic of Azerbaijan also has various other taxes, which are assessed on the Company's activities. These taxes are included as a component of operating expenses in the statement of profit or loss.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions.

The results and financial position of the Company are translated into the presentation currency as follows:

a) Assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;
b) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
c) Components of equity are translated at the historic rate; and
d) All resulting exchange differences are recognized in other comprehensive income.

When control over a foreign operation is lost, the previously recognized exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal.

The exchange rates at the year-end used by the Company in the preparation of the financial statements are as follows:

	December 31, 2021	**December 31, 2020**
AZN 1/USD	0.5882	0.5882
EUR 1/USD	1.1371	1.2288
AZN 1/USD (average rate for the year)	0.5882	0.5882

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY UNDER GOING CONCERN BASIS

The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Company's financial condition.

Judgements that have the most significant effect on the amounts recognized 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:

Measurement of ECL allowance

Measurement of ECLs is a significant estimate that involves the determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 22. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios.

The Company regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. For details of ECL measurement including the incorporation of forward-looking information refers to Note 22.

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 a 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 behavioral aspects of particular customer portfolios. The Company identifies behavioral 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 22.

Modification and de-recognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Company renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. Loan terms are modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms. When a financial asset is modified, the Company assesses whether this modification results in de-recognition. In accordance with the Company's policy a modification results in de-recognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Company considers the following:

- Quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original EIR. If the difference in present value is greater than 10% the Company deems the arrangement is substantially different leading to de-recognition.

If the terms are substantially different, the Company derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

If the terms are not substantially different, the renegotiation or modification does not result in de-recognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

The Company derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset.

Valuation of lease liabilities and right of use assets

The application of IFRS 16 requires to make judgements of right-of-use assets and lease liabilities. In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise renewal options (or not to exercise termination options). Assessing whether a contract includes a lease also requires judgement. Estimates are required to determine the appropriate discount rate used to measure lease liabilities.

Recoverability of deferred income tax assets

The management of the Company created a valuation allowance against deferred income tax asset in the amount of USD 988 thousand and USD 1,622 thousand as at December 31, 2021 and 2020. The carrying value of deferred income tax assets amounted to USD 305 thousand and USD 287 thousand as at December 31, 2021 and 2020 respectively.

The management of the Company is confident that the carrying amount of deferred income tax asset will be fully realized in the future.

Valuation of forward contract

The management exercises judgement in valuation of derivative financial instruments. As disclosed in Note 14, the Company entered into a foreign exchange derivative contract for the notional amount of USD 4,000 thousand. The management estimation is that, the USD/AZN exchange rate will be stable at 1.7000 at the execution date of the derivative, accordingly the fair value of the derivative amounted to USD 306 thousand as at December 31, 2021.

4. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Company has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on December 31, 2021.

IASB has published **"Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)"** as a first reaction to the potential effects the IBOR reform could have on financial reporting. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Company as it does not have any interest rate hedge relationships.

IFRS 3 Business Combinations. Amendment of the definition of "Business" – The amendments will help companies determine whether an acquisition made is of a business or a group of assets.

The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business.

According to the amendment, a "business" is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

New definition of "Material" – The IASB has issued amendments to its definition of material to make it easier for companies to make materiality judgements. The updated definition amends IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

On May 15, 2020 IASB published **"COVID-19-Related Rent Concessions (Amendment to IFRS 16)"** amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

The changes in COVID-19-Related Rent Concessions (Amendment to IFRS 16) amend IFRS 16 to:

- provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;
- require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications;
- require lessees that apply the exemption to disclose that fact; and
- require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures.

The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. The impact of the adoption of this standard had no effect on the financial statements.

5. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Company in advance of their effective dates, the following Interpretations were in issue but not yet effective.

IFRS 17 "Insurance contracts" was issued in May 2017 and replaced IFRS 4 "Insurance contracts". The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. An entity shall apply IFRS 17 "Insurance Contracts" to insurance contracts, including reinsurance contracts, it issues; reinsurance contracts it holds; and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied.

Amendments to IAS 1 to clarify the classification of liabilities – Amendments to IAS 1 – In January 2020 the IASB issued "Classification of Liabilities as Current or Non-Current" providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Earlier application is permitted.

Reference to the Conceptual Framework – Amendments to IFRS 3 – In May 2021, the IASB issued Amendments to IFRS 3 "Business Combinations" – Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 – In May 2021, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 – In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Subsidiary as a first-time adopter. As part of its 2018-2021 annual improvements to the IFRS standards process, the IASB issued an amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards". The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

IFRS 9 Financial Instruments – Fees in the "10 percent" test for derecognition of financial liabilities. As part of its 2018-2021 annual improvements to the IFRS standards process the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

"IAS 41 Agriculture" – Taxation in fair value measurements – As part of its 2018-2021 annual improvements to the IFRS standards process the IASB issued an amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

IFRS 10 "Consolidated Financial Statements" and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Unless otherwise indicated, the new standards are not expected to have a significant effect on the financial statements of the Company.

6. CASH AND CASH EQUIVALENTS

	December 31, 2021	December 31, 2020
Cash on hand	8	7
Current accounts with resident banks	2,174	3,164
Cash in transit	218	126
Term placements with resident banks	-	588
Total cash and cash equivalents	**2,400**	**3,885**

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 recognize any credit loss allowance for cash and cash equivalents.

7. LOANS TO CUSTOMERS

	December 31, 2021	December 31, 2020
Agriculture loans	12,080	6,994
Service loans	3,772	2,563
Trade loans	2,392	1,680
Other loans	288	198
Gross loans to customers	**18,532**	**11,435**
Less: allowance for expected credit loss	(1,437)	(879)
Total loans to customers, net	**17,095**	**10,556**

As at December 31, 2021 and 2020, all loans are granted to customers operating in the Republic of Azerbaijan, which represents a significant geographical concentration in one region.

Interest received by the Company during the year ended December 31, 2021 amounted to USD 4,835 thousand.

Interest received by the Company during the year ended December 31, 2020 amounted to USD 3,130 thousand.

For the purpose of excepted credit loss, the Company groups its loans into small and large customers.

The following tables disclose the movements in the gross carrying amounts of loans to customers between the beginning and the end of the reporting periods:

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired (POCI)	Total
Large loans to customers					
As at January 1, 2021	**4,456**	**2,389**	**722**	**95**	**7,662**
Transfer from Stage 1 to Stage 2	(1,955)	1,955	-	-	-
Transfer from Stage 2 to Stage 1	3,283	(3,283)	-	-	-
Transfer from Stage 2 to Stage 3	-	(660)	660	-	-
Transfer from Stage 3 to Stage 2	-	12	(12)	-	-
New financial instruments originated or purchased	12,486	575	698	23	13,782
Other movements	(5,784)	(340)	(2,069)	(369)	(8,562)
Recoveries of loans previously written-off	-	-	1,000	325	1,325
Write-offs	-	-	(168)	-	(168)
As at December 31, 2021	**12,486**	**648**	**831**	**74**	**14,039**

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired (POCI)	Total
Small loans to customers					
As at January 1, 2021	**2,586**	**1,075**	**74**	**38**	**3,773**
Transfer from Stage 1 to Stage 2	(662)	662	-	-	-
Transfer from Stage 2 to Stage 1	878	(878)	-	-	-
Transfer from Stage 2 to Stage 3	-	(289)	289	-	-
Transfer from Stage 3 to Stage 2	-	1	(1)	-	-
New financial instruments originated or purchased	4,035	128	267	9	4,439
Other movements	(2,802)	(571)	(827)	(399)	(4,599)
Recoveries of loans previously written-off	-	-	620	379	999
Write-offs	-	-	(119)	-	(119)
As at December 31, 2021	**4,035**	**128**	**303**	**27**	**4,493**

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired (POCI)	Total
Large loans to customers					
As at January 1, 2020	**3,720**	**61**	**538**	**120**	**4,439**
Transfer from Stage 1 to Stage 2	(3,544)	3,544	-	-	-
Transfer from Stage 2 to Stage 1	812	(812)	-	-	-
Transfer from Stage 2 to Stage 3	-	(620)	620	-	-
Transfer from Stage 3 to Stage 2	-	4	(4)	-	-
New financial instruments originated or purchased	9,550	1,360	219	29	11,158
Other movements	(6,081)	(1,148)	(965)	(54)	(8,248)
Recoveries of loans previously written-off	-	-	793	-	793
Write-offs	(1)	-	(479)	-	(480)
As at December 31, 2020	**4,456**	**2,389**	**722**	**95**	**7,662**

	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired (POCI)	Total
Small loans to customers					
As at January 1, 2020	**3,119**	**50**	**76**	**105**	**3,350**
Transfer from Stage 1 to Stage 2	(1,742)	1,742	-	-	-
Transfer from Stage 2 to Stage 1	446	(446)	-	-	-
Transfer from Stage 2 to Stage 3	-	(278)	278	-	-
Transfer from Stage 3 to Stage 2	-	2	(2)	-	-
New financial instruments originated or purchased	9,184	539	549	25	10,297
Other movements	(8,414)	(534)	(1,103)	(92)	(10,143)
Recoveries of loans previously written-off	-	-	421	-	421
Write-offs	(7)	-	(145)	-	(152)
As at December 31, 2020	**2,586**	**1,075**	**74**	**38**	**3,773**

The following tables disclose the movements in the credit loss allowance amounts of loans to customers between the beginning and the end of the reporting periods:

Large loans to customers	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
As at January 1, 2021	**124**	**141**	**397**	**662**
Transfer from Stage 1 to Stage 2	(55)	209	-	154
Transfer from Stage 2 to Stage 1	83	(167)	-	(84)
Transfer from Stage 2 to Stage 3	-	(183)	397	214
Transfer from Stage 3 to Stage 2	-	4	(10)	(6)
New financial instruments originated or purchased	526	99	452	1,077
Other movements	(152)	4	(1,554)	(1,702)
Recoveries of loans previously written-off	-	-	1,000	1,000
Unwinding of discount (recognized in interest income)	-	-	31	31
Write-offs			(168)	(168)
As at December 31, 2021	**526**	**107**	**545**	**1,178**

Small loans to customers	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
As at January 1, 2021	**54**	**145**	**18**	**217**
Transfer from Stage 1 to Stage 2	(13)	45	-	32
Transfer from Stage 2 to Stage 1	11	(39)	-	(28)
Transfer from Stage 2 to Stage 3	-	(65)	167	102
Transfer from Stage 3 to Stage 2	-	-	(1)	(1)
New financial instruments originated or purchased	76	12	168	256
Other movements	(52)	(86)	(706)	(844)
Recoveries of loans previously written-off	-	-	620	620
Unwinding of discount (recognized in interest income)	-	-	24	24
Write-offs			(119)	(119)
As at December 31, 2021	**76**	**12**	**171**	**259**

Large loans to customers	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
As at January 1, 2020	**60**	**12**	**476**	**548**
Transfer from Stage 1 to Stage 2	(58)	70	-	12
Transfer from Stage 2 to Stage 1	9	(61)	-	(52)
Transfer from Stage 2 to Stage 3	-	(137)	346	209
Transfer from Stage 3 to Stage 2	-	1	(2)	(1)
New financial instrument originated or purchased	74	138	51	263
Other movements	40	118	(827)	(669)
Recoveries of loans previously written-off	-	-	793	793
Unwinding of discount (recognized in interest income)	-	-	39	39
Write-offs	(1)	-	(479)	(480)
As at December 31, 2020	**124**	**141**	**397**	**662**

Small loans to customers	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
As at January 1, 2020	**19**	**2**	**65**	**86**
Transfer from Stage 1 to Stage 2	(10)	21	-	11
Transfer from Stage 2 to Stage 1	3	(16)	-	(13)
Transfer from Stage 2 to Stage 3	-	(34)	153	119
Transfer from Stage 3 to Stage 2	-	-	(1)	(1)
New financial instrument originated or purchased	43	32	8	83
Other movements	6	140	(515)	(369)
Recoveries of loans previously written-off	-	-	421	421
Unwinding of discount (recognized in interest income)	-	-	32	32
Write-offs	(7)	-	(145)	(152)
As at December 31, 2020	**54**	**145**	**18**	**217**

The tables below show the credit quality analysis of the Company's loans to customers as at December 31, 2021 and 2020. Explanation of the terms 12-month ECL and lifetime ECL is disclosed in Note 22.

Credit quality in the table below is based on the scale developed internally by the Company. The scale is described in Note 22.

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Purchased or originated credit-impaired (POCI)	Total
Large loans to customers					
Current	12,481	86	9	-	12,576
Past due 1-30 days	5	446	8	-	459
Past due 31-60 days	-	75	3	1	79
Past due 61-90 days	-	41	7	1	49
Past due more than 90 days	-	-	804	72	876
Total gross loans to customers	**12,486**	**648**	**831**	**74**	**14,039**
Less: expected credit losses	(526)	(107)	(545)	-	(1,178)
Total net loans to customers as at December 31, 2021	**11,960**	**541**	**286**	**74**	**12,861**

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Purchased or originated credit-impaired (POCI)	Total
Small loans to customers					
Current	4,035	19	5	-	4,059
Past due 1-30 days	-	74	3	-	77
Past due 31-60 days	-	21	2	1	24
Past due 61-90 days	-	14	3	1	18
Past due more than 90 days	-	-	290	25	315
Total gross loans to customers	**4,035**	**128**	**303**	**27**	**4,493**
Less: expected credit losses	(76)	(12)	(171)	-	(259)
Total net loans to customers as at December 31, 2021	**3,959**	**116**	**132**	**27**	**4,234**

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Purchased or originated credit-impaired (POCI)	Total
Large loans to customers					
Current	4,456	1,798	11	3	6,268
Past due 1-30 days	-	253	16	3	272
Past due 31-60 days	-	172	7	1	180
Past due 61-90 days	-	166	29	1	196
Past due more than 90 days	-	-	659	87	746
Total gross loans to customers	**4,456**	**2,389**	**722**	**95**	**7,662**
Less: expected credit losses	(124)	(141)	(397)	-	(662)
Total net loans to customers as at December 31, 2020	**4,332**	**2,248**	**325**	**95**	**7,000**

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Purchased or originated credit-impaired (POCI)	Total
Small loans to customers					
Current	2,586	791	-	-	3,377
Past due 1-30 days	-	123	1	-	124
Past due 31-60 days	-	74	4	-	78
Past due 61-90 days	-	87	3	1	91
Past due more than 90 days	-	-	66	37	103
Total gross loans to customers	**2,586**	**1,075**	**74**	**38**	**3,773**
Less: expected credit losses	(54)	(145)	(18)	-	(217)
Total net loans to customers as at December 31, 2020	**2,532**	**930**	**56**	**38**	**3,556**

Collateralization of loans. The table below summarizes the carrying value of loans to customers analyzed by the type of collateral obtained by the Company:

	December 31, 2021	December 31, 2020
Unsecured loans	18,311	10,508
Loans collateralized by guarantee	188	879
Loans collateralized by pledge of inventories	21	26
Loans collateralized by pledge of real estate	10	14
Loans collateralized by pledge of motor vehicles	2	3
Loans collateralized by pledge equipment	-	1
Loans collateralized by households	-	3
Loans collateralized by pledge of gold	-	1
Gross loans to customers	**18,532**	**11,435**
Less: allowance for expected credit loss	(1,437)	(879)
Total loans to customers, net	**17,095**	**10,556**

8. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Furniture and office equipment	Computer equipment	Other assets	Total property and equipment	Intangible assets	Total property, equipment and intangible assets
At initial cost						
January 1, 2020	**249**	**412**	**108**	**769**	**2,112**	**2,881**
Additions	8	42	6	56	6	62
Disposals	(3)	(1)	-	(4)	-	(4)
December 31, 2020	**254**	**453**	**114**	**821**	**2,118**	**2,939**
Additions	12	181	36	229	69	298
Disposals	(1)	-	(26)	(27)	-	(27)
December 31, 2021	**265**	**634**	**124**	**1,023**	**2,187**	**3,210**
Accumulated depreciation						
January 1, 2020	**227**	**313**	**90**	**630**	**2,109**	**2,739**
Depreciation charge	16	48	6	70	5	75
Eliminated on disposals	(2)	(1)	-	(3)	-	(3)
December 31, 2020	**241**	**360**	**96**	**697**	**2,114**	**2,811**
Depreciation charge	7	66	6	79	31	110
Eliminated on disposals	(1)	-	(26)	(27)	-	(27)
December 31, 2021	**247**	**426**	**76**	**749**	**2,145**	**2,894**

	Furniture and office equipment	Computer equipment	Other assets	Total property and equipment	Intangible assets	Total property, equipment and intangible assets
Net book value						
As at December 31, 2021	18	208	48	274	42	316
As at December 31, 2020	13	93	18	124	4	128

As at December 31, 2021 and 2020 included in property, equipment and intangible assets were fully depreciated assets totalling USD 2,721 thousand and USD 2,707 thousand, respectively.

9. RIGHT-OF-USE ASSETS

	Office buildings	Total right-of-use assets
At initial cost		
January 1, 2020	**498**	**498**
Additions	89	89
December 31, 2020	**587**	**587**
Additions	575	575
December 31, 2021	**1,162**	**1,162**
Accumulated depreciation		
January 1, 2020	**147**	**147**
Depreciation charge	192	192
December 31, 2020	**339**	**339**
Depreciation charge	225	225
December 31, 2021	**564**	**564**
Net book value		
December 31, 2021	**598**	**598**
December 31, 2020	**248**	**248**

10. OTHER ASSETS

Other assets comprise:

	December 31, 2021	December 31, 2020
Other financial assets:		
Settlement receivables	80	1
Receivables from shareholder	-	119
Total other financial assets	**80**	**120**
Other non-financial assets:		
Prepayments for services	206	119
Repossessed collaterals*	62	48
Prepaid taxes other than income tax	38	24
Total other non-financial assets	**306**	**191**
Total other assets	**386**	**311**

*As at December 31, 2021 and 2020, the fair value of repossessed collaterals approximates to USD 62 thousand and USD 48 thousand, respectively. During the year ended December 31, 2021 the Company recognized a gain on change of fair value of repossessed collaterals in the amount of USD 1 thousand (2020: loss in the amount of USD 8 thousand).

	December 31, 2021	December 31, 2020
Residential property	62	38
Business property	-	10
Total repossessed collaterals	**62**	**48**

Management of the Company intends to sell these assets, however no active program to locate a buyer and complete plan have been initiated as at the date of report.

11. BORROWED FUNDS

	December 31, 2021	December 31, 2020
Loan from Central Bank of the Republic of Azerbaijan	4,614	5,518
Loan from EMF Microfinance Fund AGMVK	4,076	-
Loan from Agrarian Credit and Development Agency under the Ministry of Agriculture of the Republic of Azerbaijan	92	44
Total borrowed funds	**8,782**	**5,562**

During the year ended December 31, 2021, the Company additionally borrowed USD 92 thousand from Agrarian Credit and Development Agency under the Ministry of Agriculture of the Republic of Azerbaijan with an annual interest rate of 2.5% per annum for the purpose of financing lending activity.

In estimating the discount rates for term borrowings from Agrarian Credit and Development Agency under the Ministry of Agriculture of the Republic of Azerbaijan (the "Agency") the Company considers this market as a separate market from other commercial borrowing business as these loans are issued to the whole banking sector of Azerbaijan at the same terms, purposes, conditions and credit risk exposures.

During the year ended December 31, 2021, the Company borrowed USD 4,076 thousand from EMF Microfinance Fund AGMVK with an annual interest rate of 8.06% per annum for the purpose of financing lending activity.

The Company is obligated to comply with financial covenants in relation to the loan from EMF Microfinance Fund AGMVK. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Company did not have any significant issues with these covenants during the year ended December 31, 2021 which could cause early withdrawal of the funds.

A reconciliation of the opening and closing amounts of borrowed funds with relevant cash and non-cash changes from financing activities is stated below:

	Amount
January 1, 2020	**4,138**
Cash flows	
Proceeds	1,360
Transaction costs paid	(6)
Interest paid	(6)
Non-cash changes	
Interest expense	357
Fair value adjustment at initial recognition	(281)
December 31, 2020	**5,562**
Cash flows	
Proceeds	4,106
Principal paid	(1,380)
Transaction costs paid	(40)
Interest paid	(8)
Non-cash changes	
Interest expense	542
December 31, 2021	**8,782**

12. DEBT SECURITIES ISSUED

	December 31, 2021	**December 31, 2020**
Registered bonds in State Register for Securities	1,729	-
Total debt securities issued	**1,729**	-

Debt securities issued represent 3 thousand bonds for the total carrying amount of USD 1,729 thousand as at December 31, 2021 registered in the State Committee for Securities of the Republic of Azerbaijan with the face value of AZN 1,000 each with an annual fixed coupon rate equal to 12.5% and maturing in December, 2023.

The interest on bonds is paid quarterly. Bondholders have the right to demand repayment of principal at maturity. There are no restrictions regarding the sale and purchase of the bonds in the secondary markets.

A reconciliation of the opening and closing amounts of debt securities issued with relevant cash and non-cash changes from financing activities is stated below:

	Amount
January 1, 2021	-
Cash flows	
Proceeds	1,765
Principal paid	-
Transaction costs paid	(36)
Interest paid	-
Non-cash changes	
Interest expense	-
December 31, 2021	**1,729**

13. LEASE LIABILITIES

	December 31, 2021	December 31, 2020
Current lease liabilities	261	111
Non-current lease liabilities	314	144
Total lease liabilities	**575**	**255**

Future minimum lease payments as at December 31, 2021 were as follows:

	Minimum lease payments due		
	Within one year	One to five years	Total
Lease payments	304	339	643
Finance charges	(43)	(25)	(68)
Net present value as at December 31, 2021	**261**	**314**	**575**

Future minimum lease payments as at December 31, 2020 were as follows:

	Minimum lease payments due		
	Within one year	One to five years	Total
Lease payments	133	164	297
Finance charges	(22)	(20)	(42)
Net present value as at December 31, 2020	**111**	**144**	**255**

A reconciliation of the opening and closing amounts of lease liabilities with relevant cash and non-cash changes from financing activities is stated below:

	Amount
January 1, 2020	**355**
Cash flows	
Repayment of principal	(186)
Interest paid	(28)
Non-cash changes	
New leases	86
Interest expense	28
December 31, 2020	**255**
Cash flows	
Repayment of principal	(163)
Interest paid	(42)
Non-cash changes	
New leases	482
Interest expense	43
December 31, 2021	**575**

14. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2021	**December 31, 2020**
Other financial liabilities:		
Derivative financial instrument*	306	-
Payable to employees	298	230
Professional service fee payable	139	141
Payables to customers	36	30
Service fee payable to a related party	33	16
Others	55	19
Total other financial liabilities	**867**	**436**
Other non-financial liabilities:		
Taxes other than income tax payable	60	40
Others	2	2
Total other non-financial liabilities	**62**	**42**
Total other liabilities	**929**	**478**

* The Company entered into a derivative financial instrument as at December 31, 2021. The table below shows the fair value of the derivative financial instrument, recorded as a liability, together with its notional amount. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivative is measured. The notional amount indicates the volume of transactions outstanding at the year-end and is not indicative of the credit risk.

	December 31, 2021 USD			December 31, 2020 USD		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contract						
Forwards – foreign	4,000	-	(306)	-	-	-
Total derivative liability		-	(306)		-	-

Included in net result from foreign currency derivative in the amount of USD 306 thousand as at December 31, 2021 represent net results from foreign currency non-deliverable forward contract.

15. NET INTEREST INCOME

	Year ended December 31, 2021	Year ended December 31, 2020
Interest income on financial assets recorded at amortized cost		
- interest income from loans to customers	4,661	3,170
- interest income from deposits placed with the bank	-	59
Total interest income on financial assets recorded at amortized cost	**4,661**	**3,229**
Interest expense on financial liabilities recorded at amortized cost		
- interest expense on borrowed funds	(542)	(357)
- interest expense on lease liabilities	(43)	(28)
Total interest expense on financial liabilities recorded at amortized cost	**(585)**	**(385)**
Net interest income	**4,076**	**2,844**

16. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses comprise the following items:

	Year ended December 31, 2021	Year ended December 31, 2020
Wages and salaries	1,979	1,772
Compulsory social security obligations	381	306
Allowances, incentives and other benefits	353	229
Depreciation and amortization	335	266
Professional fees	261	142
IT professional fees	198	196
Bank charges	48	94
Consumables and office supply*	89	44
Communication expenses	77	66
Taxes, other than income tax	67	26
Business trip expenses	47	25
Marketing expenses	25	18
Vehicle running costs	-	24
Others	68	27
Total administrative and other operating expenses	**3,928**	**3,235**

*Consumables and office supply expenses consist of COVID-19 related expenses in the amount of USD 3 thousand for the year ended December 31, 2021 (December 31, 2020: USD 2 thousand).

17. INCOME TAXES

The Company measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Azerbaijan where the Company operates, which may differ from IFRS.

The Company is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences as at December 31, 2021 and 2020 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Republic of Azerbaijan on taxable profits (as defined) under tax law in that jurisdiction.

	December 31, 2021	December 31, 2020
Deferred income tax assets/(liabilities) in relation to:		
Loans to customers, net	1,120	1,441
Tax loss carried forward	305	533
Property and equipment and intangible assets	106	122
Other liabilities	156	120
Lease liabilities	115	51
Other assets	(41)	181
Borrowed funds	(149)	(222)
Provision for tax losses	(200)	(268)
Right-of-use assets	(119)	(49)
Not recognized deferred tax asset	(988)	(1,622)
Net deferred income tax asset	**305**	**287**

When estimating the deductible difference for loans to customers the Company has analyzed the following circumstances:

- in accordance with tax legislation of the Republic of Azerbaijan expected credit losses for a loan to customer is a non-deductible expense;
- losses arising from sale of loan to customer is a deductible expense;

The effective tax rate reconciliation is as follows for the years ended December 31, 2021 and 2020:

	Year ended December 31, 2021	Year ended December 31, 2020
Profit before income tax	1,517	432
Tax at the statutory tax rate (20%)	(303)	(86)
Tax effect of permanent differences and changes in not recognized deferred income tax assets	321	50
Income tax benefit/(expense)	**18**	**(36)**
Deferred income tax benefit/(expense)	18	(36)
Income tax benefit/(expense)	**18**	**(36)**

	December 31, 2021	December 31, 2020
As at year beginning – deferred income tax assets	**287**	**323**
Change in deferred income tax balances	18	(36)
As at year end – deferred income tax assets	**305**	**287**

18. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Company (this includes parents, subsidiaries and
(b) fellow subsidiaries); have an interest in the Company that gives then significant influence over the Company; and that have joint control over the Company;
(c) Associates – enterprises on which the Company has significant influence and which is neither a subsidiary nor a joint venture of the investor;
(d) Joint ventures in which the Company is a venture;
(e) Members of key management personnel of the Company or its parent;
(f) Close members of the family of any individuals referred to in (a) or (d);
(g) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(h) Post-employment benefit plans for the benefit of employees of the Company, or of any entity that is a related party of the Company.

The Company's policy does not allow issuing loans to employees, board members, their family members and close relatives, and other persons involved in the management, control or supervision of the Company. The Company had the following transactions outstanding as at December 31, 2021 and 2020 with related parties:

	December 31, 2021		December 31, 2020	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Other assets				
- *receivables from shareholder*	-	386	119	311
Other liabilities				
- *Parent*	33	929	16	478

Included in the statement of comprehensive income for the years ended December 31, 2021 and 2020 are the following amounts which arose due to transactions with related parties:

	Year ended December 31, 2021		Year ended December 31, 2020	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation				
- *short-term employee benefits*	461	2,603	353	2,307

	Year ended December 31, 2021		Year ended December 31, 2020	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Administrative and other operating expenses (excluding staff-related costs)				
- the Parent	324	1,325	232	928

19. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company is a party to financial instruments with off-balance-sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Company's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The Company is received from customers and counterparties. Management is of the opinion that no material un-accrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation – Laws and regulations affecting business in the Republic of Azerbaijan continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Company may be challenged by the relevant regional authorities. Recent events suggest that the tax authorities are taking a more assertive position in their 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. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods.

The taxation system in the Republic of Azerbaijan continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Azerbaijan Republic suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in Azerbaijan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Azerbaijan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

20. FAIR VALUE OF FINANCIAL INSTRUMENT

IFRS defines fair value as 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.

Fair value hierarchy

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- **Level 1**: quoted market price (unadjusted) in an active market for an identical instrument.
- **Level 2**: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3**: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As at December 31, 2021 and 2020 the Company had derivative financial instruments measured at fair value.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

		Fair value measurement using			
	Date of valuation	**Quoted prices inactive markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2021	2,400	-	-	2,400
Loans to customers, net	December 31, 2021	-	-	17,095	17,095
Other financial assets	December 31, 2021	-	-	80	80
Liabilities for which fair values are disclosed					
Borrowed funds	December 31, 2021	-	-	8,782	8,782
Lease liabilities	December 31, 2021	-	-	575	575
Other financial liabilities	December 31, 2021	-	-	561	561
Debt securities issued	December 31, 2021	-	-	1,729	1,729

	Date of valuation	Fair value measurement using			Total
		Quoted prices inactive markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2020	3,885	-	-	3,885
Loans to customers, net	December 31, 2020	-	-	10,556	10,556
Other financial assets	December 31, 2020	-	-	120	120
Liabilities for which fair values are disclosed					
Borrowed funds	December 31, 2020	-	-	5,562	5,562
Lease liabilities	December 31, 2020	-	-	255	255
Other financial liabilities	December 31, 2020	-	-	436	436

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

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

Assets and liabilities for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

21. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. According to the verdict # 01/2 para 4.3.1 of the Central Bank of the Republic of Azerbaijan dated on January 21, 2015 and the requirement of the Central Bank of the Republic of Azerbaijan, the Company has to meet the minimum regulatory total capital requirement of AZN 300 thousand.

Management's focus in respect of the Company's capital management has the following objectives: ensuring the Company's ability to operate as a going concern and maintain balances in order to comply with covenants of lenders and investors. This is exercised daily in respect of the projected and actual data and on the basis of monthly reports with the corresponding calculations that are verified and signed by the management board and chief accountant of the Company.

22. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Company's Companying business and is an essential element of the Company's operations.

The main risks inherent to the Company's operations are those related to:

- Credit exposures;
- Liquidity risk;
- Market risk.

The Company recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Company has established a risk management framework, whose main purpose is to protect the Company from risk and allow it to achieve its performance objectives.

Structure of risk management. The Management Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Management Board. The Management Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Audit Committee. On a quarterly basis, the Audit Committee examines reports related to risk issues presented by Internal Audit and follows measures undertaken by the management to resolve discovered issues. The Audit Committee is also involved in a discussion of findings discovered by external auditors.

Other committees. In order to provide additional measures in terms of risk management, permanent working committees are created within the Company:

- Asset and Liability Management Committee ("ALMC") – the committee reviews every month the projected liquidity for the following 12 months. Liquidity forecasts are based on expected loan disbursement levels, expected funding plans and other expected cash movements. ALMC takes decisions related to new borrowings, sets open currency position and counterparty limits for operations with companies and financial institutions, monitors covenants with lenders, examines issues related to maturities of assets and liabilities, and gives recommendations to the Finance Department concerning the elimination of divergences.
- Credit Departments – the departments evaluate the quality of loans of the Company and prepares recommendations concerning allowances for impairment and provisions. Credit Department supervises the realization of methodology concerning credit risk management, takes measures towards credit risk minimization and makes decisions concerning operations bearing credit risk. This department places credit limits for branches, performs analysis and controls credit risk.

Finance Department. Finance department is responsible for the day-to-day management of assets and liabilities of the Company, computation and planning of liquidity position of the Company, and redistribution of cash and cash equivalents between operating sites of the Company. The Finance Department controls the application of limits and liquidity ratios set by ALMC and the implementation of decisions taken by ALMC in regard to liquidity risk optimisation.

Internal Audit. Internal Audit performs an independent review of the risk management process, informs management about the revealed shortcomings, and gives appropriate recommendations concerning the improvement of the risk management process.

Risk measurement and reporting systems. The choice of the risk management method depends on risk factors, which determine the relative importance or probability of the risks, which may adversely affect the financial position of the Company. The Company not only analyses and measures each risk separately, but also determines the level of cumulative risks. Thus, for each kind of risk, the following methods of risk measurement are applied:

- credit risk analysis of a credit portfolio and credit risk ratios;
- off-balance-sheet risk;
- interest-rate risk maturity and interest rate gap analysis of assets and liabilities;
- liquidity risk gap analysis of payments in local and foreign currencies; analysis of liquidity ratios, determination of liquidity reserve;
- currency risk gap analysis of payments in foreign currency; analysis of currency position;
- Operational risk for all operations having an impact on the Company's financial position, systems assuring separation of activities (such as initiation, execution and control) necessary for the finalisation of operations have been implemented.

Risk measurement methods reflect expected loss, which the Company might incur when performing its activities. Every month, based on the analysis of the separate risks, the Finance Department prepares conclusions concerning the current state of the risks, and their main drivers.

In particular, at the monthly ALMC, the status of the interest rate, liquidity, currency, and other market risks are reported.

The status of functional risks (operational – technological, legal, strategic, reputation risk) is also reported to Management Board each month. These reports are examined at the Management Board and Audit Committee meetings held each quarter.

Risk mitigation. The Company uses the following methods, *inter alia*, for risk minimisation:

- Reception of guarantees and collateral for credit risk mitigation;
- Diversification – selection of assets, which are not connected between each other.

Credit risk

Credit risk measurement for loans to customers

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. For risk management reporting purposes, the Company considers and consolidates loan size as an element of credit risk exposure. The Company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company;

- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3';
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis;
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information;
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for exposure by comparing:

- The remaining lifetime PD as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- Quantitative test based on movement in PD;
- Forbearance status; and
- A backstop of 30 days past due.

"Forbearance" occurs upon restructuring, i.e., prolongation in payment terms of payment of interest or principal arising from a deterioration of a borrower's financial condition such that it is not the same as it was at the time of loan origination and a borrower has applied for a change in the payment schema of the loan. Restructuring only occurs when the appropriate division of the Company is reasonably confident that a borrower is able to service the renewed payment schedule.

Multiple economic scenarios form the basis of determining the PD at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different PD. It is the weighting of these different scenarios that form the basis of a weighted average PD that is used to determine whether credit risk has significantly increased. Forward-looking information includes the future prospects of Azerbaijan's economy obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Company considers the following as constituting an event of default:

- The contract is past due more than 90 days; or
- The credit obligations reflected in the contract are unlikely to be paid to the Company in full.

The definition of default is appropriately tailored to reflect the different characteristics of different types of assets. When assessing if the borrower is unlikely to pay its credit obligation, the Company takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Company uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

The following diagram summarizes the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Credit-impaired assets in Stage 3 undergo a probationary period of 6 months after the material credit obligations of the Contract are met before moving to Stage 2.

Write-off

When periodic collective historical recovery analysis indicates that the Company does not expect significant additional recoveries after certain months in default ("MID"), it is the policy of the Company to write-off loans on a collective basis.

Amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is USD 287 thousand.

Grouping with similar credit risk characteristics

Financial assets are split into two segments for the purposes of PD calculation:

- Small (for loan amounts up to USD 2,000);
- Large (for loan amounts greater than USD 2,001).

The segments above reflect the level of assessment of client creditworthiness, with the large segment exhibiting a comparatively stricter assessment. The historical default rate is utilized as an indicator of strictness, such that the difference in default rates is maximized between the segments.

Rating Model

All available information (product groups, industries, etc.) are used to derive internal ratings for each segment. In such a way groups with the same risk characteristics are created and used afterwards to adjust the PD curve of the segment.

Significant increase in credit risk

The Company considers a financial instrument to have experienced a significant increase in credit risk when the remaining Lifetime PD at the reporting date has increased by 20%, compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognized.

The following table shows the impact on the December 31, 2021 and 2020 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognized.

ECL sensitivity on the threshold for PD change				Impact on December 31, 2021 ECL		
	Actual threshold applied (%)	Change in threshold (+%)	Change in threshold (-%)	Lower threshold	No change	Higher threshold
SMALL	150				259	
LARGE	150				1,178	

ECL sensitivity on the threshold for PD change				Impact on December 31, 2020 ECL		
	Actual threshold applied (%)	Change in threshold (+%)	Change in threshold (-%)	Lower threshold	No change	Higher threshold
SMALL	150				217	
LARGE	150				662	

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data.

Probability of default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD) or over the remaining lifetime (Lifetime PD) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Probability of Default is modeled by the survival function, which is based on hazard rates.

Hazard rates are obtained by the Cox proportional-hazards model, which is a semi-parametric model, it uses an assumed simple form for the effect of covariates and the exact value of free parameters is estimated with partial likelihood. The baseline is obtained by non-parametrical methods. A macroeconomic overlay can be directly included into the hazard function through a time-dependent variable. From obtained hazard rates, then Point-in-Time ("PiT") PD is derived, i.e., marginal PDs assigned to a respective date.

Observation period for modeling Cox hazard rates is 5 years.

Set out below are the changes to the ECL as at December 31, 2021 and 2020 that would result from reasonably possible changes in the macroeconomic parameter from the actual assumptions used in the Company's economic variable assumptions.

		2021	
Macro parameter used	GDP		
% change of macro parameter for the sensitivity test	50%		
	+ 50%	No change	- 50%
SMALL	258	259	260
LARGE	1,175	1,178	1,181
Total	**1,433**	**1,437**	**1,441**

		2020	
Macro parameter used	GDP		
% change of macro parameter for the sensitivity test	50%		
	+ 50%	No change	-50%
SMALL	216	217	218
LARGE	659	662	665
Total	**875**	**879**	**883**

Loss given default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model considers cash recoveries only. LGD is calculated on a discounted cash flow basis using the EIR as the discounting factor.

Secured loans utilize collateral values, whereas unsecured and guaranteed loans use recovery rates.

Exposure at default (EAD)

EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Company has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data, has assessed the impact of macroeconomic variables on PD and recovery rate. The macroeconomic variable which was involved in the analysis is a real growth rate of GDP.

Maximum exposure of credit risk. The Company's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to the credit risk of balance sheet and off-balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Company's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

Maximum exposure of credit risk table is as below:

	Maximum exposure	Collateral Pledged	Net exposure
December 31, 2021			
Cash at banks	2,392	-	2,392
Loans to customers, net	17,095	-	17,095
Other financial assets	80	-	80
December 31, 2020			
Cash at banks	3,878	-	3,878
Loans to customers, net	10,556	-	10,556
Other financial assets	120	-	120

Analysis of collateral and other credit enhancements

The Company closely monitors collateral held for financial assets considered to be credit-impaired excluding POCI loans, as it becomes more likely that the Company will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

December 31, 2021	Gross carrying amount	Loss allowance	Amortized Cost	Fair value of collateral
Loan portfolio in default (Stage 3)				
Large loans	831	(545)	286	-
Small loans	303	(171)	132	-
Total	**1,134**	**(716)**	**418**	-

December 31, 2020	Gross carrying amount	Loss allowance	Amortized Cost	Fair value of collateral
Loan portfolio in default (Stage 3)				
Small loans	722	(397)	325	-
Large loans	74	(18)	56	-
Total	**796**	**(415)**	**381**	**-**

The following tables stratify credit exposures from loans to customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

The following table shows the distribution of LTV ratios for the Company's credit-impaired portfolio of small loans:

	2021			
	Total loan portfolio		**Credit impaired loan portfolio (stage 3)**	
Loan to Value (LTV) ratio	Gross carrying amount	Loss allowance	Gross carrying	Loss allowance
No Collateral	4,493	(259)	303	(171)
Total	**4,493**	**(259)**	**303**	**(171)**

	2020			
	Total loan portfolio		**Credit impaired loan portfolio (stage 3)**	
Loan to Value (LTV) ratio	Gross carrying amount	Loss allowance	Gross carrying	Loss allowance
No Collateral	3,773	(217)	74	(18)
Total	**3,773**	**(217)**	**74**	**(18)**

The following table shows the distribution of LTV ratios for the Company's credit-impaired portfolio of large loans:

	2021			
	Total loan portfolio		**Credit impaired loan portfolio (stage 3)**	
Loan to Value (LTV) ratio	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
No Collateral	14,039	(1,178)	831	(545)
Total	**14,039**	**(1,178)**	**831**	**(545)**

	2020			
	Total loan portfolio		**Credit impaired loan portfolio (stage 3)**	
Loan to Value (LTV) ratio	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
No Collateral	7,662	(662)	722	(397)
Total	**7,662**	**(662)**	**722**	**(397)**

Off-balance sheet risk. The Company applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance-sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Geographical concentration. The geographical concentration of the Company's financial assets and liabilities as at December 31, 2021 is set out below:

	The Republic of Azerbaijan	**OECD countries**	**Non-OECD countries**	**Total**
Cash and cash equivalents	2,400	-	-	2,400
Loans to customers, net	17,095	-	-	17,095
Other financial assets	-	80	-	80
Total financial assets	**19,495**	**80**	**-**	**19,575**
Borrowed funds	4,706	-	4,076	8,782
Lease liabilities	575	-	-	575
Debt securities issued	1,729	-	-	1,729
Other financial liabilities	379	488	-	867
Total financial liabilities	**7,389**	**488**	**4,076**	**11,953**
Net position	**12,106**	**(408)**	**(4,076)**	**7,622**

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

	The Republic of Azerbaijan	**OECD countries**	**Non-OECD countries**	**Total**
Cash and cash equivalents	3,885	-	-	3,885
Loans to customers, net	10,556	-	-	10,556
Other financial assets	1	119	-	120
Total financial assets	**14,442**	**119**	**-**	**14,561**
Borrowed funds	5,562	-	-	5,562
Lease liabilities	255	-	-	255
Other financial liabilities	367	69	-	436
Total financial liabilities	**6,184**	**69**	**-**	**6,253**
Net position	**8,258**	**50**	**-**	**8,308**

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 exposed to interest rate risks as entities in the Company borrow funds at both fixed and floating rates. The risk is managed by the Company maintaining an appropriate mix between fixed and floating rate borrowings.

The ALMC also manages interest rate and market risks by matching the Company's interest rate position, which provides the Company with a positive interest margin. The Finance Department conducts monitoring of the Company's current financial performance, estimates the Company's sensitivity to changes in interest rates and its influence on the Company's profitability.

Some of the Company's financial liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Company monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

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

The ALMC controls currency risk by management of the open currency position on the estimated basis of USD fluctuation and other macroeconomic indicators, which gives the Company an opportunity to minimize losses from significant currency rates fluctuations toward its national currency.

The Company is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

As at December 31, 2021, the Company's exposure to foreign currency exchange rate risk is as follows:

	AZN	USD	EUR	Total
Cash and cash equivalents	199	2,199	2	2,400
Loans to customers, net	17,090	5	-	17,095
Other financial assets	-	80	-	80
Total financial assets	**17,289**	**2,284**	**2**	**19,575**
Borrowed funds	4,706	4,076	-	8,782
Lease liabilities	575	-	-	575
Debt securities issued	1,729	-	-	1,729
Other financial liabilities	485	382	-	867
Total financial liabilities	**7,495**	**4,458**	**-**	**11,953**
Derivative financial instrument	(4,000)	4,000	-	-
OPEN POSITION	**5,794**	**1,826**	**2**	**7,622**

As at December 31, 2020, the Company's exposure to foreign currency exchange rate risk is as follows:

	AZN	USD	EUR	Total
Cash and cash equivalents	2,693	1,189	3	3,885
Loans to customers, net	10,549	7	-	10,556
Other financial assets	1	119	-	120
Total financial assets	**13,243**	**1,315**	**3**	**14,561**
Borrowed funds	5,562	-	-	5,562
Lease liabilities	255	-	-	255
Other financial liabilities	184	252	-	436
Total financial liabilities	**6,001**	**252**	**-**	**6,253**
OPEN POSITION	**7,242**	**1,063**	**3**	**8,308**

The following table details the Company's sensitivity to a 10% increase and decrease in the AZN against the relevant foreign currencies as at December 31, 2021 and 2020, respectively. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

	2021	
	Effect on profit or loss before taxation	**Effect on equity**
USD appreciation by 10%	(217)	(174)
USD depreciation by 10%	217	174

	2020	
	Effect on profit or loss before taxation	**Effect on equity**
USD appreciation by 10%	106	85
USD depreciation by 10%	(106)	(85)

Interest rate risk. Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Company's interest rate policy is reviewed periodically by the Management Board in order to place and attract funds based on market conditions. Interest rate risk is managed principally through monitoring interest rate gaps.

The Company manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Finance Department conducts monitoring of the Company's current financial performance, estimates the Company's sensitivity to changes in fair value interest rates and its influence on the Company's profitability.

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. A 50 (0.5%) basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 (0.5%) basis points higher/lower and all other variables were held constant, the Company's:

	2021		2020	
	Effect on profit or loss before taxation	**Effect on equity**	**Effect on profit or loss before taxation**	**Effect on equity**
Interest rate increase on 0.5%	30	24	27	22
Interest rate decrease on 0.5%	(30)	(24)	(27)	(22)

Limitations of sensitivity analysis. The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate the potential risk that only represents the Company's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Liquidity risk. Liquidity risk refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Company performs daily monitoring of existing cash balances and monthly analysis of future expected cash flows on clients and other financial operations, which is a part of the assets/liabilities management process.

The table below shows the expected maturity analysis as at December 31, 2021:

	Up to 1 month	1 month to 3 months	3 months to 6 months	7 months to 1 year	1 year to 5 years	Maturity undefined/ Overdue	December 31, 2021 Total
FINANCIAL ASSETS							
Interest rate instruments							
Loans to customers, net	314	2,336	1,089	6,636	6,720	-	17,095
Total fixed interest-bearing financial assets	314	2,336	1,089	6,636	6,720	-	17,095
Non-interest-bearing financial assets							
Cash and cash equivalents	2,400	-	-	-	-	-	2,400
Other financial assets	-	-	-	80	-	-	80
Total non-interest-bearing financial assets	2,400	-	-	80	-	-	2,480
Total financial assets	**2,714**	**2,336**	**1,089**	**6,716**	**6,720**	-	**19,575**
FINANCIAL LIABILITIES							
Interest rate instruments	-	-	-	-	-	-	-
Borrowed funds	89	-	22	1,665	7,006	-	8,782
Debt securities issued	-	-	-	-	1,729	-	1,729
Lease liabilities	25	19	54	163	314	-	575
Total fixed interest-bearing financial liabilities	114	19	76	1,828	9,049	-	11,086
Non-interest-bearing financial liabilities							
Other financial liabilities	378	182	-	307	-	-	867
Total non-interest-bearing financial liabilities	378	182	-	307	-	-	867
Total financial liabilities and commitments	**492**	**201**	**76**	**2,135**	**9,049**	-	**11,953**
Liquidity gap	2,222	2,135	1,013	4,581	6,720	-	16,671
Cumulative liquidity gap	**2,222**	**4,357**	**5,370**	**9,951**	**16,671**	**16,671**	

The table below shows the expected maturity analysis as at December 31, 2020:

	Up to 1 month	1 month to 3 months	3 months to 6 months	7 months to 1 year	1 year to 5 years	Maturity undefined/ Overdue	December 31, 2020 Total
FINANCIAL ASSETS							
Interest rate instruments							
Cash and cash equivalents	-	588	-	-	-	-	588
Loans to customers, net	179	1,729	2,421	3,667	2,539	21	10,556
Total fixed interest-bearing financial assets	179	2,317	2,421	3,667	2,539	21	11,144
Non-interest bearing financial assets							
Cash and cash equivalents	3,297	-	-	-	-	-	3,297
Other financial assets	1	-	119	-	-	-	120
Total non-interest bearing financial assets	3,298	-	119	-	-	-	3,417
Total financial assets	**3,477**	**2,317**	**2,540**	**3,667**	**2,539**	**21**	**14,561**
FINANCIAL LIABILITIES							
Interest rate instruments							
Borrowed funds	-	-	-	1,327	4,235	-	5,562
Lease liabilities	5	19	25	62	144	-	255
Total fixed interest-bearing financial liabilities	5	19	25	1,389	4,379	-	5,817
Non-interest bearing financial liabilities							
Other financial liabilities	332	104	-	-	-	-	436
Total non-interest bearing financial liabilities	332	104	-	-	-	-	436
Total financial liabilities and commitments	**337**	**123**	**25**	**1,389**	**4,379**	**-**	**6,253**
Liquidity gap	3,140	2,194	2,515	2,278	(1,840)	21	8,308
Cumulative liquidity gap	**3,140**	**5,334**	**7,849**	**10,127**	**8,287**	**8,308**	

Maturity analysis of undiscounted financial liabilities. The following tables detail the Company's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

The table below shows the maturity analysis of undiscounted financial liabilities as at December 31, 2021:

	Up to 1 month	1 month to 3 months	3 months to 6 months	7 months to 1 year	1 year to 5 years	Maturity undefined	December 31, 2021 Total
FINANCIAL LIABILITIES							
Interest rate instruments							
Borrowed funds	101	1	61	1,832	8,003	-	9,998
Debt securities issued	-	49	49	104	1,968	-	2,170
Lease liabilities	31	26	65	182	339	-	643
Total fixed interest-bearing financial liabilities	132	76	175	2,118	10,310	-	12,811
Non-interest bearing financial liabilities							
Other financial liabilities	378	182	-	307	-	-	867
Total non-interest bearing financial liabilities	378	182	-	307	-	-	867
Total financial liabilities and commitments	**510**	**258**	**175**	**2,425**	**10,310**	-	**13,678**

The table below shows the maturity analysis of undiscounted financial liabilities as at December 31, 2020:

	Up to 1 month	1 month to 3 months	3 months to 6 months	7 months to 1 year	1 year to 5 years	Maturity undefined	December 31, 2020 Total
FINANCIAL LIABILITIES							
Interest rate instruments							
Borrowed funds	-	-	-	1,334	5,315	-	6,649
Lease liabilities	6	22	29	72	168	-	297
Total fixed interest-bearing financial liabilities	6	22	29	1,406	5,483	-	6,946
Non-interest bearing financial liabilities							
Other financial liabilities	332	104	-	-	-	-	436
Total non-interest bearing financial liabilities	332	104	-	-	-	-	436
Total financial liabilities and commitments	**338**	**126**	**29**	**1,406**	**5,483**	-	**7,382**

Credit rating analysis. The following table details credit ratings of financial assets held by the Company that are neither past due nor impaired:

December 31, 2021	BB-	B1	Ba3	Ba2	Not rated	Total
Cash at banks	-	2,030	14	62	286	2,392
Loans to customers, net	-	-	-	-	17,095	17,095
Other financial assets	-	-	-	-	80	80

December 31, 2020	BB-	B1	Ba3	Ba2	Not rated	Total
Cash at banks	1,736	68	1,669	-	405	3,878
Loans to customers, net	-	-	-	-	10,556	10,556
Other financial assets					120	120

The Company enters into numerous transactions where the counterparties are not rated by international rating agencies. The Company has developed internal models, which allow it to determine the rating of counterparties, which are comparable to the rating of international rating agencies.

A model of the borrower's scoring assessment has been developed in the Company to assess and decide on loan customers. The scoring model is developed relating to loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

The scoring assessment based on the borrower's parameters is one of the main factors in the decision-making process relating to loans.

A methodology of evaluation of borrowers is based on the following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The maximum limit of a loan is calculated using a ratio of debt pressure on a borrower.

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's be advised that rating titles and therefore rating meanings are different from agency to agency. The highest possible rating is AAA. Investment-grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as a speculative grade.

Operational risk. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

23. EVENTS AFTER THE REPORTING DATE

On March 29, 2022 the Company issued additional 3 thousand bonds for the total amount of USD 1,765 thousand registered in the State Committee for Securities of the Republic of Azerbaijan with the face value of AZN 1,000 each with an annual fixed coupon rate equal to 12.5% and maturing in March, 2024.

On March 29, 2022, the Company borrowed USD 2,000 thousand from EFA Financial Institutions Debt Fund Pte Ltd with an annual interest rate of 8.06% per annum for the purpose of financing lending activity.