LLC “PSG Finans”
Non-Bank Credit Organization

Financial statements

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

Contents

Statement of financial position

As of 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	2019	2018
Assets			
Cash and cash equivalents	5	2,680	283
Loans to customers	6	7,590	2,348
Repossessed collateral		128	128
Property and equipment	7	24	6
Intangible assets	8	21	–
Right-of-use assets	3	82	–
Deferred income tax assets	9	480	306
Current income tax assets		–	26
Other assets	11	90	7
Total assets		**11,095**	**3,104**
Liabilities			
Loans payable	10	6,612	2,322
Current income tax liabilities		271	–
Lease liabilities	3	86	–
Other liabilities	11	51	78
Total liabilities		**7,020**	**2,400**
Equity			
Share capital	12	4,250	1,700
Additional paid-in capital	12	13	–
Accumulated deficit		(188)	(996)
Total equity		**4,075**	**704**
Total equity and liabilities		**11,095**	**3,104**

Signed and authorized for release on behalf of the Management of LLC “PSG Finans” Non-Bank Credit Organization

Guliyev Orkahn Deputy Director

Osmanova Sanubar Finance Manager

31 May 2020

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

Statement of profit or loss and other comprehensive income

For the year ended 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	*2019*	*2018*
Interest income			
Loans to customers		1,785	604
Interest Income calculated using effective interest rate		**1,785**	**604**
Interest expense			
Loans payable	10	(178)	(38)
Interest expense on lease liabilities	3	(9)	–
		(187)	**(38)**
Net interest income		**1,598**	**566**
Credit loss expense on financial assets	14	(113)	(520)
Net interest income after credit loss expense		**1,485**	**46**
Fee and commission income		37	33
Realized gain on sale of investment securities FVOCI		–	13
Net losses from foreign currency translation differences		(7)	(3)
Government grants	15	116	–
Non-interest income		**146**	**43**
Commission expense		(12)	(9)
Personnel expenses	16	(291)	(148)
General and administrative expenses	16	(190)	(133)
Losses on modification of financial instruments	6	(201)	–
Non-interest expense		**(694)**	**(290)**
Profit/(loss) before income tax expense		**937**	**(201)**
Income tax expense	9	(129)	–
Profit/(loss) for the year		**808**	**(201)**
Other comprehensive income		–	–
Total comprehensive income/(loss) for the year		**808**	**(201)**

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

Statement of changes in equity

For the year ended 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Share capital	*Accumulated deficit*	*Additional paid-in capital*	*Total equity*
As at 1 January 2018	**1,700**	**(267)**	**–**	**1,433**
Impact of adopting IFRS 9	–	(528)	–	**(528)**
Restated opening balance under IFRS 9	**1,700**	**(795)**	–	**905**
Total comprehensive loss for the year	–	(201)	–	**(201)**
As at 31 December 2018	**1,700**	**(996)**	**–**	**704**
Total comprehensive income for the year	–	808	–	**808**
Issue of share capital (Note 1)	2,550	–	–	**2,550**
Additional paid-in capital (Note 12)	–	–	13	**13**
As at 31 December 2019	**4,250**	**(188)**	**13**	**4,075**

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

Statement of cash flows

For the year ended 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	*2019*	*2018*
Cash flows from operating activities			
Interest received		1,866	297
Interest paid	10	(132)	(35)
Fees and commissions received		37	91
Fees and commission paid		(12)	(9)
Personnel expenses paid		(278)	(148)
General and administrative expenses paid		(195)	(128)
Government grant received in relation to operating activities	15	116	–
Cash flows from operating activities before changes in operating assets and liabilities		**1,402**	**68**
Net (increase)/decrease in operating assets			
Loans to customers		(5,638)	(1,789)
Repossessed collaterals		–	(128)
Other assets		(83)	(2)
Net increase in operating liabilities			
Other liabilities		6	34
Net cash flows used in operating activities before income tax		**(4,313)**	**(1,817)**
Income tax paid		–	–
Net cash used in operating activities		**(4,313)**	**(1,817)**
Cash flows from financing activities			
Issue of share capital	1	2,550	–
Lease liabilities paid	3	(46)	–
Loans payable	21	4,257	1,615
Net cash from financing activities		**6,761**	**1,615**
Cash flows from investing activities			
Investment securities FVOCI sold		–	213
Realized gain on sale of investment securities FVOCI		–	13
Purchase of property and equipment		(30)	–
Purchase of intangible assets		(21)	–
Net cash (used in)/from investing activities		**(51)**	**226**
Effect of exchange rates changes on cash and cash equivalents		–	(3)
Net increase in cash and cash equivalents		**2,397**	**21**
Cash and cash equivalents, beginning	5	283	262
Cash and cash equivalents, ending	5	**2,680**	**283**

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

(Amounts presented are in thousands of Azerbaijani manats)

1. Principal activities

Limited liability Company “PSG Finans” Non-Bank Credit Organization (the “Company”) was established on 19 August 2013 in accordance with the laws of the Republic of Azerbaijan. The Company operates under license No. BKT-18 issued by the Central Bank of the Republic of Azerbaijan (“CBAR”) on 11 December 2013.

The Company’s principal business activity is issuance of micro loans to individuals and legal entities. As at 31 December 2019, the Company’s network comprised of head office, one branch and four representative offices (31 December 2018: head office, one branch and three representative offices).

The number of the Company’s employees as at 31 December 2019 was 29 (2018: 19).

The Company’s registered legal address is Nobel Avenue, 25, Khatai district, Baku, Azerbaijan.

As at 31 December, the Company is owned by the following shareholders:

Shareholder	***2019, %***	***2018, %***
Mammadov Faig	20	50
“Chaparxana KFT” LLC	20	50
Practical Solutions Middle East FZ-LLC	60	–
Total	**100**	**100**

The share capital of the Company has increased substantially from AZN 1,700 to AZN 4,250 when Practical Solutions Middle East FZ-LLC invested of AZN 2,550 in the shares of the entity becoming its new controlling shareholder (owning 60% of the shares).

2. Basis of preparation

General

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

The Azerbaijani manat is the functional and presentation currency of the Company as the majority of the transactions are denominated, measured, or funded in Azerbaijani manat. Transactions in other currencies are treated as transactions in foreign currencies. The Company maintains its records and prepares its financial statements in Azerbaijani manat. These financial statements are presented in thousands of Azerbaijani manat (“AZN”), unless otherwise indicated.

The Company’s financial statements have been prepared under the historical cost convention.

3. Summary of accounting policies

Changes in accounting policies

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

IFRS 16 Leases

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

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

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

Assets	
Right-of-use assets	123
Total assets	**123**
Liabilities	
Lease liabilities	123
Total liabilities	**123**

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

The Company has lease contracts for premises. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under Other assets and Other liabilities, respectively.

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

<u>Leases previously accounted for as operating leases</u>

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of AZN 123 were recognized;
- Lease liabilities of AZN 123 were recognized.

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	**–**
Weighted average incremental borrowing rate as at 1 January 2019	8.52%
Discounted operating lease commitments at 1 January 2019	**–**
Change in management estimations about lease agreement terms	123
Lease liabilities as at 1 January 2019	**123**

(b) Summary of new accounting policies

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

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 remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The useful life of right-of-use assets is three years.

Lease liabilities

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

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if 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 remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

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

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

Amounts recognized in the statement of financial position, income statement and statement of cash flows

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

	Right-of-use assets	***Lease liabilities***
As at 1 January 2019	**123**	**(123)**
Additions	–	–
Depreciation expense	(41)	–
Interest expense	–	(9)
Payments	–	46
As at 31 December 2019	**82**	**(86)**

The Company had total cash outflows for leases of AZN 46 in 2019. The Company did not have any non-cash additions to right-of-use assets and lease liabilities in 2019.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Company.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

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

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Annual improvements 2015-2017 cycle

IAS 12 Income Taxes

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

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

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

Fair value measurement

The Company measures financial instruments, such as trading and securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date.

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

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

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

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

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

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

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortized cost;
- FVOCI;
- FVPL.

The Company classifies and measures its derivative and trading portfolio at FVPL. The Company may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at Amortized cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from credit institutions, loans to customers, investments securities at Amortized cost

The Company only measures amounts due from credit institutions, loans to customers and other financial investments at Amortized cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company’s business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

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

The SPPI test

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

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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

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

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

Reclassification of financial assets

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company changes the business model for managing financial assets. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets and liabilities in 2019.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, debt securities issued, other borrowed funds and subordinated debts. After initial recognition, borrowings are subsequently measured at Amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortisation process.

If the Company purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in profit or loss.

Offsetting of financial instruments

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

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

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

Renegotiated loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

3. Summary of accounting policies (continued)

Renegotiated loans (continued)

The Company derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. Restructuring of impaired loans does not result in derecognition of financial instrument, unless there is a change in contractual currency of the loan on renegotiation. When assessing whether or not to derecognize a loan to a customer, amongst others, the Company considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss, presented within separate line in the statement of profit or loss and other comprehensive income, to the extent that an impairment loss has not already been recorded.

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

Write-off

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

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a

(Amounts presented are in thousands of Azerbaijani manats)

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 and other comprehensive income.

3. Summary of accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with regulations of the Republic of Azerbaijan.

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Azerbaijan also has various operating taxes that are assessed on the Company’s activities. These taxes are included as a component of general and administrative expenses.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property and equipment

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

	Years
Computer equipment	4
Furniture and fixtures	5
Other fixed assets	5

The useful life of right-of-use assets is three years.

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

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are Amortized over the useful economic lives of 3 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

(Amounts presented are in thousands of Azerbaijani manats)

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

3. Summary of accounting policies (continued)

Repossessed collateral

In certain circumstances, collateral is repossessed following the foreclosure on loans that are in default. Repossessed collateral is measured at the lower of carrying amount and net realizable value.

Share capital

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

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

Fee and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

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

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees include commission income for provision of the following services: cash withdrawals, consulting, settlement operations, documentary operations and fees charged for transactions with plastic cards and etc. These fees or components of fees are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(Amounts presented are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Foreign currency translation

The financial statements are presented in Azerbaijani manats, which is the Company’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss and other comprehensive income as net gain/(losses) from foreign currencies − translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBAR exchange rate on the date of the transaction are included in net gain/(losses) from foreign currencies-dealing. The official CBAR exchange rates at 31 December 2019 and 31 December 2019 were as follows:

	31 December 2019	***31 December 2018***
USD/AZN	1.7000	1.7000

Government grants and government assistance

Government grants are recognized where there is reasonable assurance that the grant will be received and all the related conditions will be complied with. Where the grant relates to an expense item, it is recognized as income in the same periods as the respective expenses it is intended to compensate on a systematic basis. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Government loans provided at below market interest rates are recognized in accordance with IFRS 9. The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognized in the statement of financial position. This benefit is accounted for in accordance with IAS 20.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognized in a separate line of the statement of profit or loss and other comprehensive income for the period in which it becomes receivable.

Standards and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company’s financial statements are disclosed below. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1 and IAS 8: Definition of Material

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

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

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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

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

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

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Company’s accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company’s ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company’s criteria for assessing if there has been a significant increase in credit risk;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The amount of allowance for loan impairment recognized in the statement of financial position at 31 December 2019 was AZN 2,790 (2018: AZN 2,941). More details are provided in Note 6 and 14.

Management monitors market value of collateral on a regular basis. Management uses its experienced judgment and independent opinion to adjust the fair value to reflect the current circumstances. The amount and collateral required depend on the assessment of credit risk of the counterparty.

Initial recognition of related party transactions

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

(Amounts presented are in thousands of Azerbaijani manats)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty

Leases − estimating the incremental borrowing rate

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

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

Taxation

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

Deferred tax assets

Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by management and extrapolated results thereafter. The business plans are based on management expectations that are believed to be reasonable under the circumstances.

Related party transactions

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

5. Cash and cash equivalents

As at 31 December 2019, cash and cash equivalents consist of non-interest bearing correspondent accounts balances with five resident banks (2018: three resident banks) in the amount of AZN 2,680 (2018: AZN 283).

As at 31 December 2019 and 2018 full allowance was created against AZN 44 on the current accounts with a resident bank, the License of which was cancelled.

All balances of cash equivalents are allocated to Stage 1. The ECL relating to cash equivalents (except for aforementioned AZN 44) of the Company rounds to zero.

6. Loans to customers

Loans to customers comprise:

	2019	***2018***
Small business lending	2,043	737
Consumer lending	8,337	4,552
Gross loans to customers	**10,380**	**5,289**

(Amounts presented are in thousands of Azerbaijani manats)

Less: allowance for impairment	(2,790)	(2,941)
Loans to customers	**7,590**	**2,348**

As at 31 December 2019, out of the total gross amount of loans 11.4% (2018: 22.9%) are denominated in foreign currencies, mainly in US dollars.

(Amounts presented are in thousands of Azerbaijani manats)

6. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to small business loans during the year ended 31 December 2019 is as follows:

Small business lending	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2019	**258**	**3**	**476**	**737**
New assets originated or purchased	1,744	-	-	**1,744**
Assets repaid	(186)	-	(252)	**(438)**
Transfers to Stage 1	-	-	-	**-**
Transfers to Stage 2	-	-	-	**-**
Transfers to Stage 3	(86)	(3)	89	**-**
Amounts written off	-	-	-	**-**
At 31 December 2019	**1,730**	**-**	**313**	**2,043**

Small business lending	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2019	**(59)**	**(3)**	**(476)**	**(538)**
New assets originated or purchased	(211)	-	-	**(211)**
Assets repaid	37	-	236	**273**
Transfers to Stage 1	-	-	-	**-**
Transfers to Stage 2	-	-	-	**-**
Transfers to Stage 3	65	3	(68)	**-**
Impact on period end ECL of exposures transferred between stages during the period	-	-	(5)	**(5)**
Changes to inputs used for ECL calculations	5	-	-	**5**
At 31 December 2019	**(163)**	**-**	**(313)**	**(476)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer loans during the year ended 31 December 2019 is as follows:

Consumer lending	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2019	**2,749**	**64**	**1,739**	**4,552**
New assets originated or purchased	6,470	-	-	**6,470**
Assets repaid	(1,891)	-	(329)	**(2,220)**
Government grants	-	-	(116)	**(116)**
Changes due to modifications not resulting in derecognition	-	-	(201)	**(201)**
Transfers to Stage 1	49	(46)	(3)	**-**
Transfers to Stage 2	(280)	280	-	**-**
Transfers to Stage 3	(382)	(24)	406	**-**
Amounts written off	-	-	(148)	**(148)**
At 31 December 2019	**6,715**	**274**	**1,348**	**8,337**

(Amounts presented are in thousands of Azerbaijani manats)

6. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Consumer lending	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2019	**(605)**	**(61)**	**(1,737)**	**(2,403)**
New assets originated or purchased	(1,089)	-	-	**(1,089)**
Assets repaid	365	-	329	**694**
Government grants	-	-	116	**116**
Changes due to modifications not resulting in derecognition	-	-	201	**201**
Transfers to Stage 1	(47)	44	3	**-**
Transfers to Stage 2	238	(238)	-	**-**
Transfers to Stage 3	293	16	(309)	**-**
Impact on period end ECL of exposures transferred between stages during the period	36	(8)	(95)	**(67)**
Changes to inputs used for ECL calculations	90	-	(4)	**86**
Amounts written off	-	-	148	**148**
At 31 December 2019	**(719)**	**(247)**	**(1,348)**	**(2,314)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to small business loans during the year ended 31 December 2018 is as follows:

Small business lending	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2018	**355**	**20**	**418**	**793**
New assets originated or purchased	200	–	–	**200**
Assets repaid	(74)	–	(182)	**(256)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(3)	3	–	**–**
Transfers to Stage 3	(220)	(20)	240	**–**
At 31 December 2018	**258**	**3**	**476**	**737**

Small business lending	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2018	**(56)**	**(14)**	**(418)**	**(488)**
New assets originated or purchased	(224)	(8)	–	**(232)**
Assets repaid	–	–	182	**182**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	1	(1)	–	**–**
Transfers to Stage 3	220	20	(240)	**–**
At 31 December 2018	**(59)**	**(3)**	**(476)**	**(538)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer loans during the year ended 31 December 2018 is as follows:

Consumer lending	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2018	**946**	**6**	**1,505**	**2,457**
New assets originated or purchased	2,506	64	11	**2,581**
Assets repaid	(454)	(4)	(28)	**(486)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	(248)	(3)	251	**–**
At 31 December 2018	**2,749**	**64**	**1,739**	**4,552**

(Amounts presented are in thousands of Azerbaijani manats)

6. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Consumer lending	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**(200)**	**(5)**	**(1,728)**	**(1,933)**
New assets originated or purchased	(690)	(59)	(11)	**(760)**
Assets repaid	37	–	253	**290**
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	248	3	(251)	–
At 31 December 2018	**(605)**	**(61)**	**(1,737)**	**(2,403)**

Collateral and other credit enhancements

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

The Company obtains real estate properties, jewelry and vehicles as collateral.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Modified and restructured loans

The Company derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

The table below includes Stage 3 assets that were modified during the period, with the related modification loss suffered by the Company.

	2019	*2018*
Loans modified during the period		
Amortized cost before modification	380	-
Net modification loss	(201)	-

Concentration of loans to customers

As at 31 December 2019, the Company had a concentration of loans represented by AZN 1,378 or 13% of gross loan portfolio (2018: AZN 1,272 or 23%) due from ten (2018: ten) largest borrowers of the Company. An allowance of AZN 378 (2018: AZN 688) was recognized against these loans.

Loans are made principally within the Republic of Azerbaijan in the following industry sectors (amounts are presented prior to allowance):

	2019	*2018*
Individuals	8,337	4,323
Trading enterprises	1,676	546
Agriculture and food processing	140	420
Health and education	63	-
Transportation and telecommunication	57	-
Other	107	-
Gross loans to customers	**10,380**	**5,289**

(Amounts presented are in thousands of Azerbaijani manats)

7. Property and equipment

Movements in cost and accumulated depreciation of property and equipment for the year ended December 31, 2019, and 2018 are shown in the table below:

	Buildings and construction	*Furniture and equipment*	*Computer equipment*	*Other fixed assets*	*Total*
Cost					
31 December 2018	**–**	**2**	**5**	**–**	**7**
Additions	–	11	9	1	**21**
Disposals	–	–	–	–	–
31 December 2019	**–**	**13**	**14**	**1**	**28**
Accumulated depreciation					
31 December 2018	–	**(1)**	–	–	**(1)**
Depreciation charge	–	(1)	(2)	–	**(3)**
Disposals	–	–	–	–	–
31 December 2019	–	**(2)**	**(2)**	–	**(4)**
Net book value					
31 December 2018	–	**1**	**5**	–	**6**
31 December 2019	–	**11**	**12**	**1**	**24**

8. Intangible assets

Movements in the carrying amount of intangible assets were as follows:

	Computer software	*Total*
Cost		
31 December 2018	–	–
Additions	22	**22**
Disposals	–	–
31 December 2019	**22**	**22**
Accumulated amortization		
31 December 2018	–	–
Amortisation charge	(1)	**(1)**
Disposals	–	–
31 December 2019	**(1)**	**(1)**
Net book value		
31 December 2018	–	–
31 December 2019	**21**	**21**

9. Taxation

The corporate income tax expense comprises:

	2019	*2018*
Current tax charge	(303)	–
Deferred tax benefit	174	42
Allowance for tax losses carried forward	–	(42)
Income tax expense	**(129)**	**–**

Standard corporate income tax rate for companies comprised 20% for 2019 and 2018.

(Amounts presented are in thousands of Azerbaijani manats)

9. Taxation (continued)

The effective income tax rate corresponds to the statutory income tax rates. A reconciliation of the income tax expense/ benefit based on statutory rates with actual is as follows:

	2019	*2018*
Profit before tax	**937**	**(201)**
Statutory tax rate	20%	20%
Theoretical income tax (expense)/benefit at the statutory rate	**(187)**	**40**
Tax effect of items which are assessable for taxation purposes		
Other	10	2
Utilization of tax losses carried forward	48	(42)
Income tax expense	**(129)**	**–**

Deferred tax assets as at 31 December 2019 and 2018 and their movements for the respective year comprise:

	2017	*Effect of adopting of IFRS 9*	*Origination of temporary differences: In the statement of profit or loss and other comprehensive income*	*2018*	*Origination of temporary differences: In the statement of profit or loss and other comprehensive income*	*2019*
Tax effect of deductible temporary differences						
Allowance for loan impairment	164	–	23	187	311	498
Effect of IFRS 9	–	132	(28)	104	(104)	-
Cash and cash equivalents	9	–	(5)	4	(1)	3
Tax losses carried forward	–	–	48	48	(48)	-
Other assets/liabilities	1	–	4	5	(186)	(181)
Right-of-use asset/Lease liabilities	–	–	–	–	1	1
Property and equipment	–	–	–	–	159	159
Allowances for tax losses carried forward	–	–	(42)	(42)	42	-
Deferred tax asset	**174**	**132**	**–**	**306**	**174**	**480**

10. Loans payable

In accordance with the loan agreement signed in 2016, the Company borrowed USD loans from Practical Solution Middle East FZ-LLC. The loans bear interest rate of 4 per cent per annum and mature on 1 July 2021. During 2019, the Company made additional drawdown in the amount of AZN 3,356 (2018: AZN 1,615) and also repaid its accrued interest AZN 132 (2018: 35). Total interest expense incurred during the year ended 31 December 2019 amounted AZN 178 (2018: AZN 38). The balance as of 31 December 2019 comprised principal payable of AZN 5,651 (2018: AZN 2,295) and interest payable of AZN 65 (2018: AZN 27).

In addition, the Company entered into the debt agreement with its shareholder "Chaparkhana KFC LLC” on June 3, 2019. According to the debt agreement, the latter granted funds in USD to the Company in amount of AZN 901 for 12 months with zero interest rate, which should be repaid at the end of 12 months period. The Company considered the absence of interest rate on the loan to constitute a non-market term arrangement. Therefore, the loan was recognized at fair value using market interest rate. The difference of AZN 13 between fair value recognised on initial recognition and nominal amount of cash receipts is recognized as additional paid-in capital.

(Amounts presented are in thousands of Azerbaijani manats)

11. Other assets and liabilities

Other assets comprise:

	2019	*2018*
Settlements on money transfers	90	7
Other assets	**90**	**7**

All balances of other assets are allocated to Stage 1. The ECL relating to other assets of the Company rounds to zero.

Other liabilities comprise:

	2019	*2018*
Trade payables	12	42
Other payables	39	36
Other liabilities	**51**	**78**

12. Equity

The number of authorized ordinary shares is 425 (2018: 170) with a nominal value per share of AZN 10. All authorized shares have been issued and fully paid.

Additional paid-in capital

As at 31 December, additional paid-in capital of AZN 13 represents gain on initial recognition of financial liability of AZN 901 borrowed from one of the shareholders of the Company.

13. Commitments and contingencies

Operating environment

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

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

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

During 2018 CBAR maintained monetary policy aimed at macroeconomic stability, including low one-digit inflation and steady AZN rate. At the same time the CBAR gradually reduced refinancing rate from 15.00% to 9.75%.

Furthermore, over 2019 the CBAR continued easing monetary conditions while maintaining stability of Azerbaijani manat. As a result, CBAR refinancing rate further declined from 9.75% to 7.50% and AZN rate remained unchanged.

Finally, on 28 February 2019 according to the Decree of the President of Azerbaijan Republic on problematic loans, the government provided funds for compensation to citizens, whose loans burden increased due to the devaluation of Azerbaijani manat in 2015. This measure significantly reduced amounts of non-performing loans as well as supported capital and liquidity in the banking system.

The Company’s management is monitoring economic developments in the current environment and taking precautionary measures it considered necessary in order to support the sustainability and development of the Company’s business in the foreseeable future.

(Amounts presented are in thousands of Azerbaijani manats)

13. Commitments and contingencies (continued)

Legal

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

Taxation

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Company that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken.

Management’s interpretation of the relevant legislation as at 31 December 2019 is appropriate and the Company’s tax, currency and customs positions will be sustained.

Insurance

The Company has not currently obtained insurance coverage related to liabilities arising from errors or omissions.

Compliance with CBAR ratios

CBAR requires non-bank credit organizations to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2019, the Company was in compliance with these ratios.

14. Credit loss expense and other impairment provisions

The table below shows the ECL charges on financial instruments recorded in profit or loss for the year ended 31 December 2019:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Loans to customers	6	(218)	(183)	288	**(113)**
Credit loss (expense)/reversal on financial assets		**(218)**	**(183)**	**288**	**(113)**
Total credit loss (expense)/reversal		**(218)**	**(183)**	**288**	**(113)**

The table below shows the ECL charges on financial instruments recorded in profit or loss for the year ended 31 December 2018:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Loans to customers	6	(408)	(45)	(67)	**(520)**
Credit loss expense on financial assets		**(408)**	**(45)**	**(67)**	**(520)**
Total credit loss expense		**(408)**	**(45)**	**(67)**	**(520)**

(Amounts presented are in thousands of Azerbaijani manats)

15. Government grants

Government grants comprise the following:

	2019	2018
Reversal of credit loss allowance of loan exposures repaid by Government of Azerbaijan on behalf of customers	116	–
Government grants	**116**	**–**

On 28 February 2019 the President of Azerbaijan Republic signed a decree (the “Decree”) on additional measures for resolution of the issues relating to non-performing loans of individuals in the Republic of Azerbaijan. The Decree applies to loans of individuals that meet certain defined criteria. The main purpose of the Decree was to compensate individuals for losses that were incurred as a result of devaluations of AZN currency in 2015, followed by economic downturn during 2016. For that purpose, the government of Azerbaijan, acting through Central Bank of the Republic of Azerbaijan, repaid the outstanding principal balances of past-due loans of individuals meeting certain criteria.

As a result, during 2019 CBAR repaid loan exposures of customers in amount of AZN 116. The Company derecognized all such loan exposures from its statement of financial position upon receipt of the funds from CBAR. The ECL allowance for such loans at the moment of derecognition amounted to AZN 116. The reversal of this ECL allowance was recognized as government grant in the statement of profit or loss and other comprehensive income.

The Company has no unfulfilled conditions as at 31 December 2019 attached to grants received from the government of Azerbaijan.

16. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprise:

	2019	2018
Salaries and bonuses	(249)	(121)
Social security costs	(42)	(27)
Personnel expenses	**(291)**	**(148)**

General and administrative expenses comprise:

	2019	2018
Contractor fee's	(64)	(28)
Depreciation and amortization	(45)	-
Regulatory Fee's	(30)	(17)
Office supplies	(18)	(10)
Occupancy and rent	(12)	(65)
Legal and consultancy	(5)	(2)
Communications	(3)	(1)
Other	(13)	(10)
Total general and administrative expenses	**(190)**	**(133)**

17. Risk management

Introduction

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

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company’s strategic planning process.

(Amounts presented are in thousands of Azerbaijani manats)

17. Risk management (continued)

Introduction (continued)

Risk management structure

Management Board

The Management Board is ultimately responsible for identifying and controlling risks; however, there is separate independent body responsible for overall risk management.

Supervisory Board

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

Risk measurement and reporting systems

The Company’s risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Company also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Risk mitigation

The Company actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company’s performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Company’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Company has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Impairment assessment

From 1 January 2018, the Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. The Company is using general and simplified approaches in calculation of ECL.

(Amounts presented are in thousands of Azerbaijani manats)

17. Risk management (continued)

Credit risk (continued)

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon.
EAD	The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.
LGD	The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time.

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

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

Stage 1:	When loans are first recognized, the Company recognizes an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Company records an allowance for the LTECL.

Company is using general approach in calculation of expected credit losses for banks and securities. For integration of forward-looking information into the expected credit losses estimation, dependence of credit risk on macroeconomic factors is determined. The probability of default is estimated based on external rating migration matrices from Moody’s report. PD estimates were calibrated from through-the-cycle to point-in-time and were adjusted for forward-looking information. LGD estimates are based on the external statistics (Moody’s reports).

Company is using simplified approach in calculation of ECL for loan portfolio. The probability of default for loan portfolio is calculated using migration matrices. For this purpose, simplified migration matrices, which reflect the number of migrations from one overdue bucket to another one are prepared.

Definition of default

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Consumer lending and residential mortgages

Consumer lending comprises secured and unsecured personal loans, credit cards and overdrafts. These products are some of the less complex small business lending are rated by days past due.

The probability of default for consumer loans is calculated using migration matrices. For this purpose, simplified migration matrices, which reflect the change from respective month of one year to the same month of the next year are prepared based on the amounts of loans in each matrices.

Corporate and small business lending

The same approach and inputs as for consumer lending applies to corporate and small business lending. For corporate

(Amounts presented are in thousands of Azerbaijani manats)

loans, migration matrices used in the PD calculations are determined by the number of loans in each matrices.

17. Risk management (continued)

Credit risk (continued)

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client’s ability to increase its exposure while approaching default and potential early repayments too.

Loss given default

The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

Where appropriate, further recent data is used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios.

LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 segment of each asset class.

Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition. When estimating ECLs on a collective basis, the Company applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Forward-looking information and multiple economic scenarios

The Company relies on forward looking information as economic inputs, such as NPL, Consumer Price Index and Oil price and determines forward looking information based on multiple scenarios.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Company’s internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Company’s credit rating system.

The Company classifies its credit related assets as follows:

High grade – counterparties with excellent financial performance, having no changes in the terms and conditions of loan agreements and no overdue in principal and interest.

Standard grade – counterparties with stable financial performance, having no changes in the terms and conditions of loan agreements and no overdue in principal and interest.

Sub-standard grade – counterparties with satisfactory financial performance, having changes in the terms and conditions of loan agreements and no overdue in principal and interest.

(Amounts presented are in thousands of Azerbaijani manats)

17. Risk management (continued)

Credit risk (continued)

The credit quality of financial assets is managed by the Company internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Company's credit rating system. The table below shows gross balances under IFRS 9 as at 31 December 2019:

Internal rating grade:	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents	5	Stage 1	–	2,680	–	–	**2,680**
Gross loans to customers:	6						
- Small business lending		Stage 1	–	1,730	–	–	**1,730**
		Stage 2	–	–	–	–	**–**
		Stage 3	–	–	–	313	**313**
- Consumer lending		Stage 1	–	6,715	–	–	**6,715**
		Stage 2	–	–	274	–	**274**
		Stage 3	–	–	–	1,348	**1,348**
Other assets	11	Stage 1	–	90	–	–	**90**
Total			**–**	**11,215**	**274**	**1,661**	**13,150**

The table below shows gross balances under IFRS 9 as at 31 December 2018 based on the Company's internal credit rating system:

Internal rating grade:	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents	5	Stage 1	–	283	–	–	**283**
Gross loans to customers:	6						
- Small business lending		Stage 1	–	259	–	–	**259**
		Stage 2	–	–	2	–	**2**
		Stage 3	–	–	–	476	**476**
- Consumer lending		Stage 1	–	2,749	–	–	**2,749**
		Stage 2	–	–	64	–	**64**
		Stage 3	–	–	–	1,739	**1,739**
Total			**–**	**3,291**	**66**	**2,215**	**5,572**

See Note 6 for more detailed information with respect to expected credit loss of loans to customers.

Geographical risk

All of the Company's monetary assets and liabilities are geographically concentrated in the Republic of Azerbaijan, except the loans payable in the amount of AZN 5,716 that is concentrated in CIS and other non-OECD countries.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows. The Company maintains adequate level of cash that can be easily used in the event of an unforeseen interruption of cash flow.

As at 31 December 2019	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Total***
Financial liabilities				
Loans payable	–	901	6,153	**7,054**
Lease liabilities	12	34	46	**92**
Other liabilities	51	–	–	**51**
Total undiscounted financial liabilities	**63**	**935**	**6,199**	**7,197**

(Amounts presented are in thousands of Azerbaijani manats)

17. Risk management (continued)

Liquidity risk (continued)

As at 31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Financial liabilities				
Loans payable	–	–	2,525	**2,525**
Other liabilities	78	–	–	**78**
Total undiscounted financial liabilities	**78**	**–**	**2,525**	**2,603**

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges. The Company does not have any significant equity, corporate fixed income or derivatives holdings.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is not exposed to interest rate risk as the Company does not have floating rate non-trading financial assets and financial liabilities held at 31 December 2019 and 2018.

Currency risk

Currency risk is 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 tables below indicate the currencies to which the Company had significant exposure at 31 December 2019 and 2018 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against AZN, with all other variables held constant on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss and other comprehensive income. A negative amount in the table reflects a potential net reduction in profit or equity, while a positive amount reflects a net potential increase.

Currency	*Increase in currency rate in % 2019*	*Effect on profit before tax 2019*	*Increase in currency rate in % 2018*	*Effect on profit before tax 2018*
USD	10.00%	(374)	14.00%	(285)

Currency	*Decrease in currency rate in % 2019*	*Effect on profit before tax 2019*	*Decrease in currency rate in % 2018*	*Effect on profit before tax 2018*
USD	-3.00%	112	-3.00%	61

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 a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

(Amounts presented are in thousands of Azerbaijani manats)

18. Fair value measurements

Fair value hierarchy

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

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

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

		Fair value measurement using			
	Date of valuation	***Quoted prices in active 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	31 December 2019	2,680	–	–	**2,680**
Loans to customers	31 December 2019	–	–	7,590	**7,590**
Other financial assets	31 December 2019	–	–	90	**90**
Liabilities for which fair values are disclosed					
Loans payable	31 December 2019	–	–	6,612	**6,612**
Lease liabilities	31 December 2019	–	–	86	**86**
Other financial liabilities	31 December 2019	–	–	51	**51**

		Fair value measurement using			
	Date of valuation	***Quoted prices in active 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	31 December 2018	283	–	–	**283**
Loans to customers	31 December 2018	–	–	2,348	**2,348**
Other financial assets	31 December 2018	–	–	7	**7**
Liabilities for which fair values are disclosed					
Loans payable	31 December 2018	–	–	2,322	**2,322**
Other financial liabilities	31 December 2018	–	–	78	**78**

Valuation techniques and assumptions

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

Assets for which fair value approximates carrying value

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

Financial assets and financial liabilities carried at amortized cost

The fair value of unquoted instruments, loans to customers, cash and cash equivalents, loans payables and other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(Amounts presented are in thousands of Azerbaijani manats)

19. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

	2019		
	Within one year	*More than one year*	*Total*
Assets			
Cash and cash equivalents	2,680	–	**2,680**
Loans to customers	1,065	6,525	**7,590**
Repossessed collateral	128	–	**128**
Property and equipment	–	24	**24**
Intangible assets	–	21	**21**
Right-of-use assets	–	82	**82**
Deferred income tax assets	–	480	**480**
Other assets	90	–	**90**
Total	**3,963**	**7,132**	**11,095**
Liabilities			
Loans payable	896	5,716	**6,612**
Current income tax liabilities	271	–	**271**
Lease liabilities	42	44	**86**
Other liabilities	51	–	**51**
Total	**1,260**	**5,760**	**7,020**
Net assets	**2,703**	**1,372**	**4,075**

	2018		
	Within one year	*More than one year*	*Total*
Assets			
Cash and cash equivalents	283	–	**283**
Loans to customers	572	1,776	**2,348**
Repossessed collateral	128	–	**128**
Property and equipment	–	6	**6**
Deferred income tax assets	–	306	**306**
Current income tax assets	26	–	**26**
Other assets	7	–	**7**
Total	**1,016**	**2,088**	**3,104**
Liabilities			
Loans payable	–	2,322	**2,322**
Other liabilities	78	–	**78**
Total	**78**	**2,322**	**2,400**
Net assets	**938**	**(234)**	**704**

20. Related party disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

As at 31 December 2019 loans payable to related parties amounted to AZN 6,612 (2018: AZN 2,322) and total interest charge incurred during the year ended 31 December 2019 amounted to AZN 178 (2018: AZN 38).

The Company issued loans to its employees that are part of key management personnel amounted to AZN 8 (2018: null).

(Amounts presented are in thousands of Azerbaijani manats)

20. Related party disclosures (continued)

Compensation of key management personnel is as follows:

	2019	*2018*
Salaries and other benefits	38	38
Social security costs	7	10
Total key management personnel compensation	**45**	**48**

For the year ended 31 December 2019 and 2018, key management personnel comprised of 2 members.

21. Changes in liabilities arising from financing activities

	Notes	*Loan payable to Practical Solution Middle East FZ-LLC*	*Loan payable to Chaparkhana KFC LLC*	*Total liabilities from financing activities*
Carrying amount at 31 December 2018		**2,322**	**–**	**2,322**
Proceeds from issue	10	3,356	901	**4,257**
Gain on initial recognition of the loan at fair value (recognised as additional paid-in capital)		–	(13)	**(13)**
Other		38	8	**46**
Carrying amount at 31 December 2019	10	**5,716**	**896**	**6,612**

The "Other" line includes the effect of accrued but not paid interest. The Company classifies interest paid as cash flows from operating activities.

22. Capital adequacy

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. Central Bank of Azerbaijan Republic (CBAR) sets minimum capital requirements for non-bank credit organizations not less than AZN 300. As at 31 December 2019 and 2018, the Company is in compliance with the capital requirements of CBAR.

23. Events after reporting period

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

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

(Amounts presented are in thousands of Azerbaijani manats)