“AZERPOST” LIMITED LIABILITY COMPANY

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

“AZERPOST” LIMITED LIABILITY COMPANY

TABLE OF CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

The following statement is made with a view to distinguish the respective responsibilities of the management and those of the independent auditors in relation to the International Financial Reporting Standards ("IFRS") financial statements of "Azerpost" Limited Liability Company (the "Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at December 31, 2021, the results of its operations, changes in equity and cash flows for the year then ended, in accordance with IFRS.

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS has been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards;
- Taking such steps that are reasonably available to them to safeguard the assets of the Company; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements of the Company for the year ended December 31, 2021 were authorized for issue on October 20, 2022 by the Management of the Company.

On behalf of the Management:

Afgan Jalilov
Chairman of the Board

October 20, 2022
Baku, the Republic of Azerbaijan

Isi Mustafayev
Board Member

October 20, 2022
Baku, the Republic of Azerbaijan

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Management of "Azerpost" Limited Liability Company:

Qualified Opinion

We have audited the financial statements of "Azerpost" Limited Liability Company (the "Company"), which comprise the statement of financial position as at December 31, 2021, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements presented fairly, in all material respects, the statement of financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

As described in Note 1, in September 2021, "Azermarka" LLC merged with the Company according to the decree of #1325 of the President of the Republic of Azerbaijan dated April 27, 2021. As a result of the merger, the assets and liabilities of "Azermarka" LLC as at September 1, 2021, were transferred to the Company. The value of assets and liabilities of "Azermarka" LLC transferred to the Company was determined based on unaudited book values. The Company has not determined the fair value of balances at the merger date. Therefore we were not able to satisfy ourselves about the carrying values of these assets and liabilities as at the merger date and December 31, 2021.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Baker Tilly Azerbaijan

October 20, 2022
Baku, the Republic of Azerbaijan

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021
(In Azerbaijani Manats)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Non-current assets:			
Property, plant and equipment	7	40,493,506	44,089,519
Right of use assets	8	695,830	382,313
Intangible assets	9	229,943	516,763
Prepayment for non-current assets	10	594,654	740,350
Deferred income tax asset	11	446,739	322,933
Investment securities	12	93,500,220	-
Total non-current assets		**135,960,892**	**46,051,878**
Current assets:			
Cash and cash equivalents	13	181,230,273	94,378,346
Trade and other receivables	6, 14	14,532,421	12,436,073
Inventory	15	3,158,530	2,383,882
Investment securities	12	99,322,310	-
Other assets		172,046	70,921
Total current assets		**298,415,580**	**109,269,222**
TOTAL ASSETS		**434,376,472**	**155,321,100**
LIABILITIES AND EQUITY			
LIABILITIES:			
Non-current liabilities:			
Borrowings	16	10,805,757	11,645,638
Lease liability	17	430,589	62,695
Total non-current liabilities		**11,236,346**	**11,708,333**
Current liabilities:			
Trade and other payables	6, 18	20,584,696	21,704,479
Customer accounts	6, 19	354,798,813	69,227,688
Borrowings	16	840,636	870,590
Lease liability	17	272,103	343,535
Total current liabilities		**376,496,248**	**92,146,292**
Total liabilities		**387,732,594**	**103,854,625**

"AZERPOST" LIMITED LIABILITY COMPANY

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021 (Continued)
(In Azerbaijani Manats)

	Notes	December 31, 2021	December 31, 2020
EQUITY:			
Charter capital	20	73,357,719	73,344,500
Other reserves		56,717	56,717
Accumulated deficit		(26,770,558)	(21,934,742)
Total equity		**46,643,878**	**51,466,475**
TOTAL LIABILITIES AND EQUITY		**434,376,472**	**155,321,100**

On behalf of the Management:

Afgan Jalilov
Chairman of the Board

October 20, 2022
Baku, the Republic of Azerbaijan

Isi Mustafayev
Board Member

October 20, 2022
Baku, the Republic of Azerbaijan

The notes on pages 10-55 form an integral part of these financial statements.

"AZERPOST" LIMITED LIABILITY COMPANY

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Azerbaijani Manats)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
REVENUES:			
Revenue from postal services	6, 21	18,027,350	18,343,865
Revenue from financial services	6, 21	12,136,209	13,915,000
Revenue from other services	6, 21	10,188,130	8,887,919
TOTAL REVENUES		**40,351,689**	**41,146,784**
COSTS AND EXPENSES:			
Operating expenses	6, 22	(23,505,423)	(25,679,968)
General and administrative expenses	23	(20,382,804)	(19,121,805)
Depreciation and amortization	7, 8, 9	(5,090,099)	(5,834,817)
Other income	24	1,174,713	1,628,484
OPERATING LOSS:		**(7,451,924)**	**(7,861,322)**
Gain from investing activities	12	4,234,302	-
Finance expenses	25	(34,743)	(55,691)
(Expected credit losses)/reversal of expected credit losses on financial assets	6, 12, 14	(2,148,729)	4,317
Gain on termination of lease contracts		5,006	-
Foreign exchange (loss)/gain		(166,836)	16,730
NET LOSS BEFORE INCOME TAX		**(5,562,924)**	**(7,895,966)**
Income tax benefit	11	123,806	149,285
NET LOSS FOR THE YEAR		**(5,439,118)**	**(7,746,681)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(5,439,118)**	**(7,746,681)**

On behalf of the Management:

Afgan Jalilov
Chairman of the Board

October 20, 2022
Baku, the Republic of Azerbaijan

Isi Mustafayev
Board Member

October 20, 2022
Baku, the Republic of Azerbaijan

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"AZERPOST" LIMITED LIABILITY COMPANY

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Azerbaijani Manats)

	Charter capital	Other reserves	Accumulated deficit	Total equity
January 1, 2020	**73,344,500**	**56,717**	**(14,188,061)**	**59,213,156**
Loss for the year	-	-	(7,746,681)	(7,746,681)
December 31, 2020	**73,344,500**	**56,717**	**(21,934,742)**	**51,466,475**
Effect of merger of under common control entity (Note 1)	13,219	-	603,302	616,521
Loss for the year	-	-	(5,439,118)	(5,439,118)
December 31, 2021	**73,357,719**	**56,717**	**(26,770,558)**	**46,643,878**

On behalf of the Management:

Afgan Jalilov
Chairman of the Board

October 20, 2022
Baku, the Republic of Azerbaijan

Isi Mustafayev
Board Member

October 20, 2022
Baku, the Republic of Azerbaijan

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"AZERPOST" LIMITED LIABILITY COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Azerbaijani Manats)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before income tax		(5,562,924)	(7,895,966)
Adjustments for non-cash items:			
Depreciation of property, plant and equipment and right of use assets	7, 8	4,714,563	5,448,136
Amortization of intangible assets	9	375,536	386,681
Expected credit losses/(reversal of expected credit losses) on financial assets	12, 14	2,148,729	(4,317)
Gain on disposal of property, plant and equipment		(5,006)	-
Gain from investing activities	12	(4,234,302)	-
Finance expenses	25	34,743	55,691
Foreign exchange translation differences		166,836	(16,730)
Cash flows from operating activities before changes in operating assets and liabilities		**(2,361,825)**	**(2,026,505)**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Change in trade and other receivables		(2,254,719)	3,400,614
Change in inventories		13,639	(535,170)
Change in other current assets		(101,125)	(39,209)
Increase/(decrease) in operating liabilities:			
Change in trade and other payables		(1,411,327)	5,257,852
Change in customer accounts		285,571,125	(27,554,021)
Total changes in operating assets and liabilities		**279,455,768**	**(21,496,439)**
Income tax paid		-	(50,000)
Net cash inflow/(outflow) from operating activities		**279,455,768**	**(21,546,439)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale and redemption of investment securities		32,184,995	-
Interest received		3,641,640	-
Cash acquired during the merger		10,295	-
Purchase of property, plant and equipment		(627,967)	(968,928)
Purchase of intangible assets		(88,716)	(17,000)
Purchases of investment securities		(226,333,403)	-
Net cash used in investing activities		**(191,213,156)**	**(985,928)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of borrowings	16	(869,835)	(851,648)
Principal payment for lease liability	17	(319,271)	(319,578)
Interest payment for lease liability	17	(22,426)	(44,326)
Interest paid on borrowings	16	(12,317)	(11,365)
Net cash outflow from financing activities		**(1,223,849)**	**(1,226,917)**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)
(In Azerbaijani Manats)

		Year ended December 31, 2021	Year ended December 31, 2020
Effect of foreign exchange differences on cash and cash equivalents		(166,836)	16,730
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		86,851,927	(23,742,554)
CASH AND CASH EQUIVALENTS, *at the beginning of the year*	13	94,378,346	118,120,900
CASH AND CASH EQUIVALENTS, *at the end of the year*	13	181,230,273	94,378,346

On behalf of the Management:

Afgan Jalilov
Chairman of the Board

October 20, 2022
Baku, the Republic of Azerbaijan

Isi Mustafayev
Board Member

October 20, 2022
Baku, the Republic of Azerbaijan

The notes on pages 10-55 form an integral part of these financial statements.

1. THE COMPANY AND ITS OPERATIONS

Corporate Information

"Azerpost" Limited Liability Company (the "Company"), formerly the Azerpost State Enterprise, is the national postal operator of the Republic of Azerbaijan, established by order 151 of September 23, 1999 of the Ministry of Communications of the Republic of Azerbaijan "On the continuation of reforms in postal services and the improvement of the structure". The Company was established on the basis of Azerpost Production Association and is its legal successor. By order № 145 of August 31, 2009 of the Ministry of Communication and Information Technology ("MCIT"), organizational-legal form of Azerpost SE was changed and it turned into "Azerpost" LLC. The charter of "Azerpost" LLC was approved by the Ministry of Justice on September 15, 2009 and was registered under the number 9900037711 by the Office of State Registration of Commercial Legal Entities Tax Department of Baku City of the Ministry of Taxes. Activities of the Company are regulated by the law on Postal Activity of the Republic of Azerbaijan.

The Company's registered address is 36 Uzeyir Hajibeyov Street, AZ1000, Baku, Azerbaijan.

The Company has 63 Postal Branches, 7 Regional Communication Junctions and 4 branches which provide express postal services, delivery parcels/bundles locally and internationally and special courier services to government bodies. The Company employed more than 5,000 employees.

In addition to traditional postal services, such as mail and parcel delivery, the Company has introduced a number of products and services in order to broaden its revenue base and improve financial viability. These include:

1. Payment services, including pensions and social security payments and other payments to or from government authorities;
2. Collection services for utilities and similar payments;
3. Domestic and international money transfers;
4. Business services, including the provision of access to telephones for inter-city calls, fax and copying services;
5. Sales, including SIM cards and newspapers in addition to traditional postage stamps.

The Company is wholly owned by the government of the Republic of Azerbaijan through the State Service on Property Issues under the Ministry of Economy of the Republic of Azerbaijan with 100% ownership.

Merger of "Azermarka" LLC to the Company

On September 1, 2021 "Azermarka" LLC merged with the Company according to the decree of #1325 of the President of the Republic of Azerbaijan dated April 27, 2021. As both entities were under the common control of the Government, assets and liabilities of "Azermarka" LLC were combined to the Company with remaining net asset balance as of the merger date.

The unaudited statement of financial position of "Azermarka" LLC as at the transfer date, September 1, 2021 as presented in Azerbaijani Manats:

	September 1, 2021 (unaudited)
ASSETS	
Non-current assets:	
Property, plant and equipment	37,666
Total non-current assets	**37,666**
Current assets:	
Cash and cash equivalents	10,295
Trade and other receivables	68,565
Inventories	788,287
Prepayments	3,250
Total current assets	**870,397**
TOTAL ASSETS	**908,063**
LIABILITIES AND EQUITY	
LIABILITIES:	
Trade and other payables	226,539
Tax and other than income tax payable	65,003
Total liabilities	**291,542**
EQUITY:	
Share capital	13,219
Retained earnings	603,302
Total equity	**616,521**
TOTAL LIABILITIES AND EQUITY	**908,063**

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements have been prepared under the historical cost convention unless described otherwise in the accounting policy below. The financial statements are presented in the Azerbaijani Manats ("AZN"), unless otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Going concern

These financial statements have been prepared on the assumption that the Company will be able to continue as a going concern for the foreseeable future.

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

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

Foreign currency translation

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

Transactions and balances

Monetary assets and liabilities are translated into the Company's functional currency at the official exchange rate of the Central Bank of the Azerbaijan Republic ("CBAR") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Company's functional currency at year-end official exchange rates of the CBAR are recognized in profit or loss. Foreign exchange gains and losses that relate to borrowings are presented in the income statement within "Finance income and costs". All other foreign exchange gains and losses are presented in the income statement under "Foreign exchange losses less gains". Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. 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 is determined.

The Company used the following official exchange rates in the preparation of these financial statements:

- 1 USD to AZN was 1.7000 at December 31, 2021 (2020: 1.7000);
- 1 EUR to AZN was 1.9265 at December 31, 2021 (2020: 2.0890);
- 1 RUB to AZN was 0.0229 at December 31, 2021 (2020: 0.0231); and
- 1 SDR to AZN was 2.3793 at December 31, 2021 (2020: 2.4485).

Key measurement terms

Current versus non-current classifications

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification criteria. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Any gain or loss arising on de-recognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the net asset) is included in profit or loss in the year in which the asset is derecognized.

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

Depreciation is provided using the reducing balance method over the estimated useful lives of the related assets in accordance with the below rates:

• Buildings and facilities	3-7%
• Computers and equipment	10-25%
• Furniture and fixtures	10-25%
• Vehicles	10-25%
• Others	10-20%
• Right to use assets	depends on lease term

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

Intangible assets

The Company's intangible assets have definite useful lives and primarily include capitalised computer software. Intangible assets are carried at cost less accumulated amortisation and impairment losses. Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Amortization is charged to profit or loss on straight-line basis over the estimated useful lives (10 years) of intangible assets.

Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalized costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in profit or loss for the year.

Income taxes

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

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in transit, cash in ATM and nostro accounts with the CBAR and other banks. Cash and cash equivalents are carried at AC because:

(i) they are held for collection of contractual cash flows and those cash flows represent SPPI; and
(ii) they are not designated at FVTPL.

Trade and other receivables

Trade and other receivables are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method.

Investment securities

The "investment securities" caption in the statement of financial position includes:

- debt investment securities measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventory is determined on a weighted average basis. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Financial instruments – key measurement terms

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

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

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

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

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

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

Financial instruments - initial recognition

On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI or FVTPL.

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

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

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

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

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

Financial assets – classification and subsequent measurement

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

The business model reflects how the Company manages the assets in order to generate cash flows. The Company's objective is solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows").

Where the business model is to hold assets to collect contractual cash flows, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Currently, the Company does not have financial assets at FVTPL or FVOCI.

Financial assets – reclassification

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

Financial assets impairment – credit loss allowance for ECL

The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC. The Company measures ECL and recognises credit loss allowance at each reporting date.

The measurement of ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before December 31, 2021 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The Company applies the IFRS 9 general approach for investment securities to measure expected credit losses through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date);
- or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses is required for a investment securities if the credit risk of that investment has increased significantly since initial recognition.

PD and LGD rates of relevant rating agencies are used for measuring the expected credit losses for investment securities.

Financial assets – write-off

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

Derecognition of financial assets

The Company derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Company has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Company has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for a possible reversal at each reporting date.

Financial liabilities – measurement categories

The Company's financial liabilities are measured at AC and are comprised of "trade and other payables", "customer accounts", "finance lease liabilities" and "borrowings" in the statement of financial position.

Financial liabilities – derecognition

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

An exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch-up method, with any gain or loss recognized in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Offsetting financial instruments

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

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred and are subsequently carried at AC using the effective interest method.

Lease liabilities

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Company, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the Company as a starting point;
- adjusted to reflect changes in financing conditions since third-party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk; and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognized initially at fair value and subsequently carried at AC using the effective interest method.

Charter capital and other reserves

Charter capital consists of only ordinary shares of the Company. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. The Government of the Republic of Azerbaijan might provide funding to the operations of the Company in the form of capital contributions, which will be recognized in the Company's statement of changes in equity at the fair value on the date of payment.

Revenue recognition

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. In accordance with IFRS 15, a five-step model is as follows:

Step 1: Identify the contract with a customer;
Step 2: Identify the performance obligations in the contract;
Step 3: Determine the transaction price;
Step 4: Allocate the transaction price to the performance obligations in the contract;
Step 5: Recognize revenue when the entity satisfies a performance obligation.

Revenue from contracts with customers is recognized as or when the Company satisfies a performance obligation by the construction contract. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates and taxes.

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

Sales of goods. Sales are recognized when control of the good has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

No element of financing is deemed present as the sales are made either with advance payment or a credit term of 30 days, which is consistent with market practice.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Sales of services. Revenue from providing services is recognized in the accounting period in which the services are rendered. Revenue is recognized based on the actual service provided to the end of the reporting period because the customer receives and uses the benefits simultaneously.

If the payments exceed the services rendered, a contract liability is recognized.

Operating expenses

Operating expenses include expenses directly related to the Company's business activities such as remuneration of post office employees, maintenance of postal equipment, supplies, etc. and are recognized as incurred.

Value added tax

Output value-added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers, excluding financial services and international postal services. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Finance income and costs

Finance costs comprise interest expense on borrowings and interest expense on lease liabilities.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Employee benefits

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

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, 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 the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as an interest expense.

Government Grants

Government grants are recognized when there is reasonable assurance that the grants will be received, and all attached conditions will be complied with and are directly credited to equity or income as appropriate.

Contingencies

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and disclosure of contingent liabilities during the reporting period.

As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest information available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The most significant estimates relate to the depreciable lives of property and equipment, impairment of non-financial and financial assets, fair value of financial instruments and provision for obsolete inventory, provision for tax and legal contingencies and deferred taxation. Actual results could differ from these estimates.

Judgments

In the process of applying the Company's accounting policies, the management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the financial statements.

Useful life of property, plant and equipment and intangible assets

The Company assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and intangible assets and on depreciation and amortization recognized in profit and loss accounts.

ECL measurement

Measurement of ECLs is a significant estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 29. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PO"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Company regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Fair value measurement of financial instruments

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets or liabilities;
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Inventory valuation

Inventory is valued at the lower cost or net realizable value. The Company records an allowance to reduce the carrying value of obsolete and slow-moving inventory to net realizable value, when appropriate. The actual value realized on disposition of such inventory may differ from the net realizable value; any such difference could have a significant impact on future operating results.

Recoverability of VAT

At each reporting date, the Company assesses the recoverability of VAT arising on purchase of goods and services. The Company can only receive these amounts through an offset against future VAT liability or collection from the tax authorities. In assessing the recoverability of the VAT receivable, the Company considers information from the internal tax department regarding projected VAT liability, correspondence with government tax authorities, and historical recovery experience.

The actual amount of VAT recovery could differ materially from the Company's estimate and this could materially impact operating results.

Current taxes

Azerbaijani tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Company's entities may be assessed additional taxes, penalties and interest, which can be significant.

Deferred income tax asset recognition

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

Valuation of lease liabilities and right of use assets

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

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

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

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

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

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

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

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

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

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

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

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

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

5. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

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

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

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

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

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

Reference to the Conceptual Framework – Amendments to IFRS 3 – In May 2020, the IASB issued **Amendments to IFRS 3 "Business Combinations" – Reference to the Conceptual Framework**. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 – In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

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

IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Subsidiary as a first-time adopter. As part of its 2018-2020 annual improvements to the IFRS standards process, the IASB issued an amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards". The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

IFRS 9 "Financial Instruments" – Fees in the "10 percent" test for derecognition of financial liabilities. As part of its 2018-2020 annual improvements to the IFRS standards process the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

IAS 41 "Agriculture" – Taxation in fair value measurements – As part of its 2018-2020 annual improvements to the IFRS standards process the IASB issued an amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

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

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

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

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

6. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related parties are defined in IAS 24 "Related Party Disclosures". Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's immediate parent and the ultimate controlling party is the Government of the Republic of Azerbaijan.

The Company applied the exemption in paragraph 25 of IAS 24 "Related Party Disclosures" regarding the disclosure requirement for government-related entities.

A reporting entity is exempt from the disclosure requirements of paragraph 18 of IAS 24 "Related Party Disclosures" in relation to related party transactions and outstanding balances, including commitments, with:

(a) a government that has control or joint control of, or significant influence over, the reporting entity; and
(b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

The nature of transactions with government-related entities includes purchase of electricity, gas, petrol and receiving other services.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Key management compensation

Key management of the Company includes the Chairman of the Board, Board Members, and the Finance manager. Key management individuals are entitled to salaries and benefits in accordance with the approved payroll matrix. During 2021, compensation of key management personnel totaled AZN 622,885 (2020: AZN 413,219).

As at December 31, 2021, the outstanding balances with related parties were as follows:

	Entities under common control
Gross amount of investment securities	31,311,115
ECL on investment securities	(93,546)
Gross amount of trade and other receivables	303,133
ECL on trade and other receivables	(3,608)
Trade and other payables	167,375
Borrowing	10,618,321
Customer accounts	100,391,039

The income and expense items with related parties for the year ended December 31, 2021 were as follows :

	Entities under common control
Revenue from other services	8,114,308
Revenue from services rendered	1,773,967
Purchases of materials and consumables	1,273,490
Gain from investing activities	2,627,629

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

	Entities under common control
Gross amount of trade and other receivables	786,088
ECL on trade and other receivables	(19,449)
Trade and other payables	350,604
Borrowing	10,618,321
Customer accounts	29,406,673

The income and expense items with related parties for the year ended December 31, 2020 were as follows:

	Entities under common control
Revenue from other services	7,508,126
Revenue from services rendered	1,539,936
Purchases of materials and consumables	1,155,360

7. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Buildings and facilities	Computers and equipment	Furniture/ fixtures	Vehicles	Other	Construction in progress	Total
Initial cost							
January 1, 2020	**58,110,042**	**18,169,781**	**7,728,024**	**7,138,173**	**201,853**	**803,324**	**92,151,197**
Additions	82,322	463,525	118,316	97,902	4,220	-	766,285
Internal transfer	803,324	-	-	-	-	(803,324)	-
Disposals	(6,363)	(123,754)	(40,262)	(20,829)	(33,002)	-	(224,210)
December 31, 2020	**58,989,325**	**18,509,552**	**7,806,078**	**7,215,246**	**173,071**	**-**	**92,693,272**
Additions	370,324	156,005	1,496	280,203	3,300	-	811,328
Internal transfer	-	-	-	-	-	-	-
Disposals	-	(93,795)	(125,112)	-	(19,585)	-	(238,492)
December 31, 2021	**59,359,649**	**18,571,762**	**7,682,462**	**7,495,449**	**156,786**	**-**	**93,266,108**
Accumulated depreciation							
January 1, 2020	**(20,811,914)**	**(12,062,117)**	**(5,884,378)**	**(4,799,797)**	**(146,091)**	**-**	**(43,704,297)**
Charge for the year	(2,631,631)	(1,477,698)	(468,411)	(529,715)	(16,211)	-	(5,123,666)
Eliminated on disposal	6,363	123,754	40,262	20,829	33,002	-	224,210
December 31, 2020	**(23,437,182)**	**(13,416,061)**	**(6,312,527)**	**(5,308,683)**	**(129,300)**	**-**	**(48,603,753)**
Charge for the year	(2,476,287)	(1,196,708)	(257,630)	(459,609)	(17,107)	-	(4,407,341)
Eliminated on disposal	-	93,795	125,112	-	19,585	-	238,492
December 31, 2021	**(25,913,469)**	**(14,518,974)**	**(6,445,045)**	**(5,768,292)**	**(126,822)**	**-**	**(52,772,602)**
Net book value:							
December 31, 2021	**33,446,180**	**4,052,788**	**1,237,417**	**1,727,157**	**29,964**	**-**	**40,493,506**
December 31, 2020	**35,552,143**	**5,093,491**	**1,493,551**	**1,906,563**	**43,771**	**-**	**44,089,519**

Construction in progress consists of construction of post offices in several cities across the territory of the Republic of Azerbaijan. Upon completion in substance and available to use, assets are transferred to the "buildings and facilities" category.

8. RIGHT OF USE ASSETS

	Buildings	Total
Carrying amount at January 1, 2020	**533,246**	**533,246**
Addition	173,537	173,537
Depreciation charge	(324,470)	(324,470)
Carrying amount at December 31, 2020	**382,313**	**382,313**
Addition	108,837	108,837
Modification	547,176	547,176
Disposal	(35,274)	(35,274)
Depreciation charge	(307,222)	(307,222)
Carrying amount at December 31, 2021	**695,830**	**695,830**

9. INTANGIBLE ASSETS

	Intangible assets
Initial cost	
January 1, 2020	**3,866,814**
Additions	17,000
Disposal	(9,111)
December 31, 2020	**3,874,703**
Additions	88,716
December 31, 2021	**3,963,419**
Accumulated amortization	
January 1, 2020	**(2,980,370)**
Amortization charge	(386,681)
Eliminated on disposals	9,111
December 31, 2020	**(3,357,940)**
Amortization charge	(375,536)
December 31, 2021	**(3,733,476)**
Net book value:	
December 31, 2021	**229,943**
December 31, 2020	**516,763**

As at December 31, 2021 and 2020, the intangible assets comprised mainly a software system named "Colvir Banking System".

10. PREPAYMENT FOR PROPERTY, PLANT AND EQUIPMENT

Prepayments for non-current assets represent advance payments in the amount of AZN 594,654 to suppliers of property and equipment as at December 31, 2021 (2020: AZN 740,350).

11. INCOME TAXES

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2021 and 2020 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by taxation bases' differences for certain assets.

Tax legislation of the Republic of Azerbaijan region in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result, the Company may be assessed additional taxes, penalties and interest which could be material for these financial statements.

Temporary differences as at December 31, 2021 and 2020 comprise:

	December 31, 2021	December 31, 2020
Deductible temporary differences:		
Tax losses carry forward	9,268,105	5,654,716
Property, plant and equipment	4,089,334	4,635,379
Investment securities	1,918,540	-
Trade and other receivables	2,401,319	2,191,691
Intangible assets	642,645	577,109
Lease liability	232,692	232,692
Cash and cash equivalents	124,552	124,552
Inventories	123,908	123,908
Prepayments for non-current assets	59,158	59,158
Borrowings	22,426	-
Trade and other payables	-	65,116
Total deductible temporary differences	**18,882,679**	**13,664,321**
Taxable temporary differences:		
Right of use assets	(248,256)	(208,775)
Trade and other payables	(20,315)	-
Total taxable temporary differences	**(268,571)**	**(208,775)**
Net deductible temporary differences	18,614,108	13,455,546
Net deferred tax asset at the statutory tax rate (20%)	3,722,822	2,691,109
Allowance for valuation	(3,276,083)	(2,368,176)
Net deferred income tax asset	**446,739**	**322,933**

Relationships between tax benefit/(expenses) and accounting (loss)/profit for the year ended December 31, 2021 and 2020 are explained as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Loss before income tax	**(5,562,924)**	**(7,895,966)**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory tax rate	**1,112,585**	**1,579,193**
Tax effect of permanent differences	(80,872)	(387,675)
Change in allowance for valuation	(907,907)	(1,042,233)
Total income tax benefit reported in the statement of comprehensive income	**123,806**	**149,285**

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

	Year ended December 31, 2021	Year ended December 31, 2020
Change in deferred income tax asset	123,806	149,285
Income tax benefit	**123,806**	**149,285**

	December 31, 2021	December 31, 2020
Deferred income tax asset		
Beginning of the year	**322,933**	**173,648**
Change in the deferred income tax asset for the period charged to profit and loss accounts	123,806	149,285
End of the year	**446,739**	**322,933**

12. INVESTMENT SECURITIES

As at December 31, 2021 and 2020 the Company's balances of investments are as follows:

	December 31, 2021	December 31, 2020
Investment securities measured at amortized cost:		
Notes issued by Turkey Government	119,200,131	-
Notes issued by Export Credit Bank of Turkey	28,335,097	-
Notes issued by the Ministry of Finance of the Republic of Azerbaijan	18,703,027	-
Notes issued by Ukraine Government	8,963,465	-
Notes issued by Azerbaijan Government	7,336,714	-
Notes issued by Ziraat Bank of Turkey	6,931,262	-
Repurchase agreement issued by the Ministry of Finance of the Republic of Azerbaijan	5,271,374	-
Less: Allowance for expected credit losses	**(1,918,540)**	-
Net investment securities	**192,822,530**	-

The Company has investments in government securities and state banks with maturities ranging from 1 to 7 years with interest to nominal rate of 1.20% to 7.50%.

	December 31, 2021	December 31, 2020
Investment securities measured at amortized cost:		
B2	152,791,351	-
Ba2	31,217,569	-
B3	8,813,610	-
Total investment securities	**192,822,530**	-

All ratings are based on Moody's rating system.

During the year ended December 31, 2021, interest income on investment securities and gain from sale of investment securities were AZN 2,919,528 and AZN 1,314,774, respectively.

For the purposes of ECL measurement investment securities are included in Stage 1.

The following table explains the changes in the credit loss allowance for investment securities under the general ECL model between the beginning and the end of the annual period:

	December 31, 2021	December 31, 2020
Allowance for investment securities as at January 1	-	-
Increase in credit loss allowance recognized in profit or loss during the year	(1,918,540)	-
Total credit loss allowance charge in profit or loss for the year	**(1,918,540)**	-
Allowance for expected credit losses on investment securities as at December 31	**(1,918,540)**	-

13. CASH AND CASH EQUIVALENTS

	December 31, 2021	December 31, 2020
Cash on hand	17,473,527	14,950,902
Cash in transit	658,405	65,287
Cash in ATM	5,856,203	5,609,588
Cash balances with the CBAR	129,072,414	70,479,514
Correspondent accounts with other banks	28,169,724	3,273,055
Total cash and cash equivalents	**181,230,273**	**94,378,346**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at December 31, 2021 and 2020. Refer to Note 29 for the description of the Company's credit risk grading system :

	December 31, 2021	December 31, 2020
Excellent	28,169,724	3,273,055
Good	129,072,414	70,479,514
Total cash and cash equivalents at banks	**157,242,138**	**73,752,569**

For the purposes of ECL measurement cash and cash equivalent balances are included in Stage 1. The ECL for those balances represents an insignificant amount, therefore the Company did not recognise any credit loss allowance for cash and cash equivalents. Refer to Note 29 for the ECL measurement approach.

14. TRADE AND OTHER RECEIVABLES

	December 31, 2021	December 31, 2020
Trade receivables	13,502,248	11,276,566
Other financial receivables	49,104	51,495
Less expected credit loss allowance	(1,823,828)	(1,629,145)
Total financial assets within trade and other receivables, net	**11,727,524**	**9,698,916**
VAT recoverable	1,462,673	1,175,188
Prepayments	131,560	169,950
Settlements with "Millikart" LLC	14,889	110,987
Other receivable	1,195,775	1,281,032
Total non-financial receivables	**2,804,897**	**2,737,157**
Total trade and other receivables, net	**14,532,421**	**12,436,073**

As at December 31, 2021 trade receivables of AZN 5,332 thousand net of ECL provisions are denominated in foreign currency (2020: AZN 8,732 thousand).

VAT recoverable relates to purchases which have not been settled at the balance sheet date. VAT recoverable is reclaimable against VAT on operations upon payment for the services.

The entity applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before December 31, 2021 and the corresponding historical credit losses experienced within this period.

Previous periods loss levels are not adjusted in line with the current and forward-looking information on macroeconomic factors, as contractual performance obligations are short-term in nature and an impact of the adjustments is not material.

The credit loss allowance for trade and other receivables is determined according to the provision matrix presented in the table below. The provision matrix is based on the number of days that an asset is past due.

In % of gross value	December 31, 2021 Gross carrying amount	December 31, 2021 Lifetime ECL	December 31, 2021 Net carrying value	December 31, 2020 Gross carrying amount	December 31, 2020 Lifetime ECL	December 31, 2020 Net carrying Value
Trade receivable						
Current	11,149,378	(455,766)	10,693,612	9,125,135	(156,205)	8,968,930
Less than 30 days overdue	871,461	(158,643)	712,818	456,519	(96,036)	360,483
30 to 90 days overdue	263,728	(84,814)	178,914	339,280	(102,355)	236,925
91 to 180 days overdue	211,008	(126,605)	84,403	90,939	(59,110)	31,829
181 to 360 days overdue	21,681	(13,008)	8,673	140,724	(91,470)	49,254
Over 360 days overdue	984,992	(984,992)	-	1,123,969	(1,123,969)	-
Total	**13,502,248**	**(1,823,828)**	**11,678,420**	**11,276,566**	**(1,629,145)**	**9,647,421**

The following table explains the changes in the credit loss allowance for trade and other receivables under the simplified ECL model between the beginning and the end of the annual period:

	December 31, 2021	December 31, 2020
Allowance for expected credit losses on trade receivables as at January 1	**(1,629,145)**	**(1,633,462)**
(Charge)/reversal of expected credit losses on trade and other receivables	(230,189)	4,317
Write off of the trade and other receivables	35,506	-
Total credit loss allowance charge in profit or loss for the year	**(194,683)**	**4,317**
Allowance for expected credit losses on trade receivables as at December 31	**(1,823,828)**	**(1,629,145)**

15. INVENTORIES

	December 31, 2021	December 31, 2020
Goods for resale	1,662,650	1,397,628
Materials and consumables	1,495,880	986,254
Total inventories	**3,158,530**	**2,383,882**

16. BORROWINGS

	December 31, 2021	December 31, 2020
Term loans	11,646,393	12,516,228
Total borrowings	**11,646,393**	**12,516,228**

The Company's borrowings are consist of the borrowing from the International Development Association through the Ministry of Digital Development and Transport of the Republic of Azerbaijan with an annual interest rate of 0.75% with a maturity date of November 15, 2039 and the borrowing from the Ministry of Finance the Republic of Azerbaijan with zero interest rate. The borrowings are denominated in USD. There is no collateral on the borrowings. The borrowings are carried at amortized cost. The fair value of the borrowings equals their carrying amount, as the impact of discounting is not significant.

The Company does not apply hedge accounting for its hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

Current and non-current portions of the borrowings are as follows:

	December 31, 2021	December 31, 2020
Current portion	840,636	870,590
Non-current portion	10,805,757	11,645,638
Total borrowings	**11,646,393**	**12,516,228**

Reconciliation of liabilities arising from financing activities

The table below sets out an analysis of liabilities from financing activities and the movements in the Company's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:

	As at January 1, 2021	Cash changes		Non-cash changes		As at December 31, 2021
		Principal paid	*Interest paid*	*Interest expense*	*Term change*	
Current portion	870,590	(869,835)	(12,317)	12,317	839,881	840,636
Non-current portion	11,645,638	-	-	-	(839,881)	10,805,757
Total borrowings	**12,516,228**	**(869,835)**	**(12,317)**	**12,317**	**-**	**11,646,393**

	As at January 1, 2020	Cash changes		Non-cash changes		As at December 31, 2020
		Principal paid	*Interest paid*	*Interest expense*	*Term change*	
Current portion	731,429	(851,648)	(11,365)	11,365	990,809	870,590
Non-current portion	12,636,447	-	-	-	(990,809)	11,645,638
Total borrowings	**13,367,876**	**(851,648)**	**(11,365)**	**11,365**	**-**	**12,516,228**

17. LEASE LIABILITIES

	December 31, 2021	December 31, 2020
Lease liabilities (current)	272,103	343,535
Lease liabilities (non-current)	430,589	62,695
Total lease liabilities	**702,692**	**406,230**

The present value of the net minimum lease payments as at December 31, 2021 and 2020 are as follows:

	Minimum lease payments due		
	Within one year	One to five years	Total
Lease payments	283,555	501,092	784,647
Finance charges	(11,452)	(70,503)	(81,955)
Net present value as at December 31, 2021	**272,103**	**430,589**	**702,692**

	Minimum lease payments due		
	Within one year	One to five years	Total
Lease payments	363,904	67,234	431,138
Finance charges	(20,369)	(4,539)	(24,908)
Net present value as at December 31, 2020	**343,535**	**62,695**	**406,230**

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

	Current portion	Non-current portion	As of December 31, 2021
January 1, 2021	**343,535**	**62,695**	**406,230**
Cash flow			
Lease paid	(341,697)	-	(341,697)
Non-cash changes			
Term charge	(259,057)	259,057	-
Addition	-	108,837	108,837
Disposal	(40,280)		(40,280)
Modification	547,176	-	547,176
Interest expense	22,426	-	22,426
December 31, 2021	**272,103**	**430,589**	**702,692**

	Current portion	Non-current portion	As of December 31, 2020
January 1, 2020	**266,159**	**286,110**	**552,269**
Cash flow			
Lease paid	(363,904)	-	(363,904)
Non-cash changes			
Term charge	396,954	(396,954)	-
Addition	-	173,539	173,539
Interest expense	44,326	-	44,326
December 31, 2020	**343,535**	**62,695**	**406,230**

18. TRADE AND OTHER PAYABLES

	December 31, 2021	December 31, 2020
Funds in settlement	8,294,793	9,018,670
Trade payables	7,961,282	8,577,787
Amount payable to utility service providers	3,731,570	3,595,006
Other payables	383,433	311,267
Total financial payables within trade and other payables	**20,371,078**	**21,502,730**
Advance received	213,618	201,749
Total trade and other payables	**20,584,696**	**21,704,479**

19. CUSTOMER ACCOUNTS

	December 31, 2021	December 31, 2020
State and public organisations		
Current/settlement accounts	182,990,167	66,208,051
Other legal entities		
Current/settlement accounts	171,619,276	2,906,141
Individuals		
Current/demand accounts	189,370	113,496
Total customer accounts	**354,798,813**	**69,227,688**

20. CHARTER CAPITAL

The Company's registered charter capital is AZN 73,357,719 as at December 31, 2021 (2020: AZN 73,344,500).

The Company's ownership structure as of December 31, 2021 and 2020 is as follows:

	December 31, 2021	December 31, 2020
State Service on Property Issues under the Ministry of Economy of the Republic of Azerbaijan	100%	100%
Total	**100%**	**100%**

21. ANALYSIS OF REVENUE BY CATEGORY

The Company derives revenue from the transfer of goods and services at a point in time in the following major product lines:

	December 31, 2021	December 31, 2020
Revenue from domestic sales	32,451,978	31,214,182
Revenue from export sales	7,899,711	9,932,602
Total revenue from contracts with customers	**40,351,689**	**41,146,784**

Revenue from postal services, financial services and other services by major product lines and types of services comprises:

	December 31, 2021	December 31, 2020
International mail exchange services	4,895,901	7,290,026
Sales of stamps on branded envelopes	3,576,997	3,586,417
Packages	2,215,499	1,633,117
Special communications and courier services	1,338,703	1,223,842
Sales of postal stamps	1,804,210	1,196,387
The express mail services	1,169,797	807,598
Fee for submission of international postal items for customs clearance	846,873	755,844
Telegraph services fees	597,092	565,393
Sales of envelopes on branded envelopes	457,791	424,512
International small packages	201,678	206,312
Precious letters and envelopes	153,056	164,308
Courier services	20,327	18,640
Other revenue from postal services	749,426	471,469
Total revenue from postal services	**18,027,350**	**18,343,865**

	December 31, 2021	December 31, 2020
Fees from internal money transfers	4,201,727	7,157,022
Translation of foreign currency	2,983,559	2,618,866
Fees from international money transfers	1,955,259	1,680,419
Revenue from cash transactions on plastic cards	1,404,985	1,021,012
Commission from non-cash currency exchange	654,439	425,705
Fees from money transfers on current accounts	483,522	433,566
Sales of plastic cards	203,850	200,709
Commission from currency exchange	165,793	286,201
Fees from withdrawing cash on current accounts	45,750	51,793
Fees from opening current accounts	3,703	3,525
Sales of a check book	1,751	2,742
Other revenue from financial services	31,871	33,440
Total revenue from financial services	**12,136,209**	**13,915,000**

	December 31, 2021	December 31, 2020
Commission from utility (Gas)	3,359,499	2,809,713
Commission from utility (Electricity)	1,909,107	2,158,942
Commission from local telephone subscription	590,618	986,411
Receipt of tax payments	510,493	211,882
Commission from long distance calls	448,847	200,154
Commission from utility (Water)	393,928	241,094
Collection of budget payments of the Ministry of Internal Affairs	368,861	294,436
Revenue from press sales, subscription and delivery	353,956	202,512
Collection of fines by the State Traffic Police	302,012	262,461
Collection of budget payments by the State Customs Committee	155,616	161,026
Subscription fee	92,775	95,038
Receipt of SSPF payments	75,327	182,007
Rental income	67,581	65,578
Insurance services	12,268	25,714
Other revenue from other services	1,547,242	990,951
Total revenue from other services	**10,188,130**	**8,887,919**

22. OPERATING EXPENSES

	December 31, 2021	December 31, 2020
Staff costs	15,945,426	15,417,421
Distribution and conveyance costs	4,203,605	6,313,778
Materials and supplies	973,666	1,509,797
Fuel expenses	799,254	831,825
Purchase of post marks	629,814	551,176
Data processing costs	562,747	578,332
Cost of payment cards	126,774	115,923
Other	264,137	361,716
Total operating expenses	**23,505,423**	**25,679,968**

23. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2021	Year ended December 31, 2020
Staff costs	13,238,740	12,036,345
Professional services	1,296,729	1,116,389
Security expenses	960,172	982,882
Repair and maintenance	853,300	822,595
Utilities expenses	750,957	666,754
Communication expense	569,259	590,035
Bank charges	567,240	393,483
Taxes other than on income tax	434,673	477,924
Membership fees	358,272	349,546
Business trip expenses	224,401	212,779
Stationary expense	75,847	98,101
Rent expenses	30,650	32,923
Other	1,022,564	1,342,049
Total general and administrative expenses	**20,382,804**	**19,121,805**

24. OTHER INCOME

	December 31, 2021	December 31, 2020
Government grant	1,174,713	1,395,000
Other income	-	233,484
Total other income	**1,174,713**	**1,628,484**

25. FINANCE EXPENSE

	Year ended December 31, 2021	Year ended December 31, 2020
Interest expenses on borrowings	12,317	11,365
Interest expenses on lease liabilities	22,426	44,326
Total finance expense	**34,743**	**55,691**

26. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Commitments

There were no financial guarantees provided by the Company as at December 31, 2021 and 2020. The Company has no capital expenditure commitments as well as at reporting date.

Contingencies

Financial commitments and contingencies

According to the decision of the Financial Markets Control Chamber of the Republic of Azerbaijan dated July 7, 2017, the Company must ensure that the minimum amount of authorized capital, liquidity indicators and open currency position are constantly maintained at the level of the following regulations during its activity in the field of financial services:

Minimum amount of authorized capital	20,000,000 AZN
Daily instant liquidity ratio	at least 50 %
The open currency positions:	
Free floating currency separately	5% on each
Closed currency separately	3% for each
Open currency position on freely floating currencies	10% aggregate
Open currency position on closed currency	7% aggregate

Insurance

The Company does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Legal proceedings

From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates the Management is of the opinion that no material losses will be incurred, and, accordingly, no provision has been made in these financial statements as at December 31, 2021 and 2020, respectively.

Tax contingencies

Tax, currency and customs legislation of the Republic of Azerbaijan are subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Entity may be challenged by the relevant tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Starting from the financial year ended December 31, 2001 fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain legislative circumstances, reviews may cover longer periods.

The Company's management believes that its interpretation of the relevant legislation is appropriate, and the entity's tax, currency and customs positions will be sustained. Accordingly, as at December 31, 2021 no provision for potential tax liabilities had been recorded (December 31, 2020: no provision).

Operating environment of the Company

The Company's operations are conducted in the Republic of Azerbaijan. There were a number of significant changes in the operating and economic environment during the year 2021, which had an impact on the Company's business activities.

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

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

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

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

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

The government continued its monetary policy with respect to the stability of Azerbaijani Manat as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy continued in 2022 with the aim of maintaining macroeconomic stability. The Central Bank of the Republic of Azerbaijan has changed the refinancing rate several times during the period and the range was between 7.25% - 7.75% with a steady increase in rates.

The economy of Azerbaijan expanded 6.2% year-on-year in the January-June period of 2022 compared to a 2.1% growth in the same period last year as the country recovers from the pandemic. The oil and gas sector increased by 0.2% while the non-oil and gas sector advanced by 9.6%.

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

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

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

27. MANAGEMENT OF CAPITAL

According to the law on "Postal Services" of the Republic of Azerbaijan, the Company is subject to the capital regulatory requirement, such as required capital determined is higher of minimum regulatory capital required by the CBAR, which is AZN 20,000,000.

As at December 31, 2021 the Company was in compliance with regulatory requirements set by the Ministry of Digital Development and Transport of the Republic of Azerbaijan in respect of postal activities.

28. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories:

(a) financial assets at FVTPL;
(b) debt instruments at FVOCI;
(c) equity instruments at FVOCI; and
(d) financial assets at amortized cost.

Financial assets at FVTPL have two sub-categories:

(i) assets mandatorily measured at FVTPL, and
(ii) assets designated as such upon initial recognition or subsequently.

The following table provides a reconciliation of financial assets with these measurement categories as of December 31, 2021:

	Amortized cost
Assets	
Cash and cash equivalents	
- Cash on hand	17,473,527
- Cash in transit	658,405
- Cash in ATM	5,856,203
- Cash balances with CBAR	129,072,414
- Correspondent accounts with other banks	28,169,724
- Investment securities	192,822,530
Trade and other receivables	
- Trade receivables	11,678,420
- Other financial receivables	49,104
Total financial assets	**385,780,327**

During 2021 all of the Company's financial liabilities are carried at amortized cost.

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

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

	Amortized cost
Assets	
Cash and cash equivalents	
- Cash on hand	14,950,902
- Cash in transit	65,287
- Cash in ATM	5,609,588
- Cash balances with CBAR	70,479,514
- Correspondent accounts with other banks	3,273,055
Trade and other receivables	
- Trade receivables	9,647,421
- Other financial receivables	51,495
Total financial assets	**104,077,262**

During 2020 all of the Company's financial liabilities are carried at amortized cost.

29. FINANCIAL RISK MANAGEMENT

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

Market risk

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

Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Company.

	As at December 31, 2021		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**
Azerbaijani Manats	71,682,373	(85,782,869)	(14,100,496)
US Dollars	307,286,321	(288,389,467)	18,896,854
Euros	2,727,806	(10,643,964)	(7,916,158)
Russian Rubles	315,850	-	315,850
SDR	3,767,977	(2,702,676)	1,065,301
Total	**385,780,327**	**(387,518,976)**	**(1,738,649)**

	As at December 31, 2020		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**
Azerbaijani Manats	39,079,967	(35,767,534)	3,312,433
US Dollars	52,894,109	(63,526,373)	(10,632,264)
Euros	707,703	(120,612)	587,091
Russian Rubles	2,704,966	-	2,704,966
SDR	8,690,517	(4,238,357)	4,452,160
Total	**104,077,262**	**(103,652,876)**	**424,386**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following significant exchange rates applied during the year:

	December 31, 2021	**December 31, 2020**
1 USD	1.7000	1.7000
1 EUR	1.9265	2.0890
1 RUB	0.0229	0.0231
1 SDR	2.3793	2.4485

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

	December 31, 2021 Impact on loss before tax	December 31, 2020 Impact on loss before tax
US Dollar strengthening by 20%	3,779,371	(2,126,453)
US Dollar weakening by 20%	(3,779,371)	2,126,453
Euro strengthening by 20%	(1,583,232)	117,418
Euro weakening by 20%	1,583,232	(117,418)
Russian Rubles strengthening by 20%	63,170	540,993
Russian Rubles weakening by 20%	(63,170)	(540,993)
SDR strengthening by 20%	213,060	890,432
SDR weakening by 20%	(213,060)	(890,432)

Interest rate risk

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates.

	Demand and less than 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	Total
Total financial assets	198,228,898	52,092,841	41,958,368	93,500,220	385,780,327
Total financial liabilities	(375,192,566)	(533,694)	(556,370)	(11,236,346)	(387,518,976)
Net interest sensitivity gap at December 31, 2021	**(176,963,668)**	**51,559,147**	**41,401,998**	**82,263,874**	**(1,738,649)**
Total financial assets	104,077,262	-	-	-	104,077,262
Total financial liabilities	(90,759,045)	(578,435)	(607,063)	(11,708,333)	(103,652,876)
Net interest sensitivity gap at December 31, 2020	**13,318,217**	**(578,435)**	**(607,063)**	**(11,708,333)**	**424,386**

The Company does not have formal policies and procedures in place for the management of interest rate risks as management considers this risk as insignificant to the Company's business.

Credit risk

The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's sales of products on credit terms and other transactions with counterparties giving rise to financial assets. Each branch of the entity is responsible for managing and analysing the credit risk for each of its new clients before terms and conditions are offered. Credit risk arises from cash and cash equivalents and credit exposures to customers, including outstanding receivables.

The credit quality of the customer is assessed by taking into account its financial position, past experience and other factors and the management does not expect any losses from non-performance by these counterparties in the reporting periods.

The Company's maximum exposure to credit risk by class of assets is as follows:

	December 31, 2021	December 31, 2020
Trade and other receivables		
- Trade receivable	11,678,420	9,647,421
- Other financial receivables	49,104	51,495
- Investment securities	192,822,530	-
Cash and cash equivalents		
- Bank balances payable on demand	157,242,138	73,752,569
	361,792,192	**83,451,485**

Credit risk grading system

For measuring credit risk and grading financial instruments by the amount of credit risk, the Company applies risk grades estimated by external international rating agencies (Standard & Poor's- "S&P", Fitch, Moody's).

External credit ratings with a corresponding credit risk grade are disclosed in the table below:

Master scale credit risk grade	Corresponding ratings of external international rating agencies (Moody's)
Excellent	Aaa to Ba1
Good	Ba2 to B1
Satisfactory	B2, B3
Special monitoring	Caa1+ to Ca
Default	C

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

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

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probabilities of default ("PD") are applied for the following financial instruments: cash and cash equivalents.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by wholesale customers is regularly monitored by line management.

Expected credit loss for financial assets

The Company has trade receivables and investments held to maturity that are subject to the expected credit loss model.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before December 31, 2021 and the corresponding historical credit losses experienced within this period.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 90 days past due.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk, particularly in the current economic circumstances.

Credit risk attributable to receivables from foreign postal administrations is generally mitigated by offsetting trade payables to foreign postal administrations on an individual country basis, under the provisions of the Universal Postal Union. Final settlement with each foreign Postal administration can be billed a year or more after the service is performed. The Company's provision for uncollectible receivables from specific foreign postal administrations is based on the period past due after billing of the final settlement.

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

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

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities.

PD is an estimate of the likelihood of default to occur over a given time period.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period.

These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Principles of assessment based on external ratings. Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies.

Forward-looking information incorporated in the ECL models

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

Forward-looking approach for simplified approach for trade receivables.

- PD and LGD estimations for accounts receivables are based on history from the last 36 months so the most recent macroeconomic environment is essentially already reflected in the estimation process;
- Expected environment in the near future is similar to that reflected in the time series included in the PD and LGD estimation;
- Due dates for trade receivables of the Company are below 30 days. The long-term macroeconomic development does not play a significant role in shaping the risk profile in the segments. Therefore, no forward-looking adjustment is implemented for accounts receivables.

The Company regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed at least once a year.

The results of backtesting the ECL measurement methodology are communicated to Company Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company seeks to maintain a stable funding base primarily consisting of borrowing and trade and other payables. The Company keeps the funds in cash and cash equivalents, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The maturity analysis of financial liabilities at December 31, 2021 is as follows:

	Demand and less than 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	December 31, 2021 Total
Liabilities:					
Borrowings	-	420,318	420,318	10,805,757	11,646,393
Lease liabilities	22,675	113,376	136,052	430,589	702,692
Trade and other financial payable	20,371,078	-	-	-	20,371,078
Customer accounts	354,798,813	-	-	-	354,798,813
Total financial liabilities	**375,192,566**	**533,694**	**556,370**	**11,236,346**	**387,518,976**

The maturity analysis of financial liabilities at December 31, 2020 is as follows:

	Demand and less than 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	December 31, 2020 Total
Liabilities:					
Borrowings	-	435,295	435,295	11,645,638	12,516,228
Lease liabilities	28,628	143,140	171,767	62,695	406,230
Trade and other financial payable	21,502,730	-	-	-	21,502,730
Customer accounts	69,227,688	-	-	-	69,227,688
Total financial liabilities	**90,759,046**	**578,435**	**607,062**	**11,708,333**	**103,652,876**

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at December 31, 2021 and 2020 the Company had no financial instruments measured at fair value.

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

	Date of valuation	Fair value measurement using			
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	December 31, 2021 Total
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2021	181,230,273	-	-	181,230,273
Trade and other receivables	December 31, 2021	-	-	11,727,524	11,727,524
Investment securities	December 31, 2021	-	189,117,798	-	189,117,798
Liabilities for which fair values are disclosed					
Borrowings	December 31, 2021	-	-	11,646,393	11,646,393
Finance lease obligations	December 31, 2021	-	-	702,692	702,692
Trade and other payables	December 31, 2021	-	-	20,371,078	20,371,078
Customer accounts	December 31, 2021	-	-	354,798,813	354,798,813

	Date of valuation	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	December 31, 2020 Total
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2020	94,378,346	-	-	94,378,346
Trade and other receivables	December 31, 2020			9,698,916	9,698,916
Liabilities for which fair values are disclosed					
Borrowings	December 31, 2020	-	-	12,516,228	12,516,228
Finance lease obligations	December 31, 2020	-	-	406,230	406,230
Trade and other payables	December 31, 2020	-	-	21,502,730	21,502,730
Customer accounts	December 31, 2020	-	-	69,227,688	69,227,688

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

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

	Carrying value 2021	Fair value 2021	Unrecognized gain/(loss) 2021	Carrying value 2020	Fair value 2020	Unrecognized gain/(loss) 2020
Financial assets						
Cash and cash equivalents	181,230,273	181,230,273	-	94,378,346	94,378,346	-
Trade and other receivables	11,727,524	11,727,524	-	9,698,916	9,698,916	-
Investment securities	192,822,530	189,117,798	3,704,732	-	-	-
Financial liabilities						
Borrowings	11,646,393	11,646,393	-	12,516,228	12,516,228	-
Finance lease obligations	702,692	702,692	-	406,230	406,230	-
Trade and other payables	20,371,078	20,371,078	-	21,502,730	21,502,730	-
Customer accounts	354,798,813	354,798,813	-	69,227,688	69,227,688	-
Total unrecognized change in unrealized fair value			**3,704,732**			-

Assets and liabilities for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

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

31. EVENTS AFTER THE REPORTING PERIOD

Political tensions between Russia and Ukraine have been observed since February 24, 2022. The conflict received widespread international condemnation, including new sanctions imposed on Russia by European countries, the UK and the United States of America. The sanctions covered Russia's central bank and sovereign wealth funds, effectively freezing their assets and banning dealings with Russian financial institutions. Certain Russian banks were banned from SWIFT as well.

The Russian stock market fell 39% on the first day, as measured by the RTS Index, the ruble fell to a record low against the US dollar. The National Bank of Ukraine suspended currency markets, announcing that it would fix the official exchange rate. As a result of the escalation, Brent oil prices rose above $100 a barrel for the first time since 2014.

As at the date of this report, the situation has not been stabilized.

Subsequently, Moody downgraded Ukraine's foreign currency sovereign credit rating to "Caa3", with a negative outlook, citing increased risks to the government's "debt sustainability" following Russia's invasion.

On July 20, 2022 maturity date of notes issued by Ukraine Government was prolonged for two years starting from August 1, 2022, while maintaining their current rates of return.