State Housing Development Agency
Of the Republic of Azerbaijan

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

31 December 2020

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Independent Auditor's Report

To the Management of the State Housing Development Agency of the Republic of Azerbaijan:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the State Housing Development Agency of the Republic of Azerbaijan (the "Agency") as at 31 December 2020, and the Agency's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Agency's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Agency in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 International Financial Reporting Standards, 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 Agency'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 Agency or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency'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 Agency'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 Agency to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, Republic of Azerbaijan
13 July 2021

In Azerbaijani Manats	Note	31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Property, equipment and intangible assets	8	9,876,857	6,015,080
Right-of-use assets	9	114,410	141,607
Investments in debt securities	10	109,891,301	110,395,084
Total non-current assets		**119,882,568**	**116,551,771**
Current assets			
Cash and cash equivalents	11	134,876,524	88,766,562
Loans issued	12	106,753,005	-
Prepayments		9,900	8,965
Other assets		84,970	107,196
Total current assets		**241,724,399**	**88,882,723**
TOTAL ASSETS		**361,606,967**	**205,434,494**
EQUITY			
Charter capital	14	100,000,000	100,000,000
Transfers from Government	14	230,497,471	62,497,471
Retained earnings		13,578,474	8,354,527
TOTAL EQUITY		**344,075,945**	**170,851,998**
LIABILITIES			
Current Liabilities			
Trade and other payables	13	17,415,101	34,438,697
Lease liabilities	9	115,921	143,799
Total current liabilities		**17,531,022**	**34,582,496**
TOTAL LIABILITIES		**17,531,022**	**34,582,496**
TOTAL LIABILITIES AND EQUITY		**361,606,967**	**205,434,494**

Approved for issue and signed on 13 July 2021.

Mr. Sadig Sadigov

Chairman of the Board of the
State Housing Development Agency of
the Republic of Azerbaijan

Mr. Latif Abdullayev

Head of Finance and Procurement
Department of the State Housing
Development Agency of the
Republic of Azerbaijan

In Azerbaijani Manats	**Note**	**2020**	**2019**
Government assistance		2,100,000	1,500,000
General and administrative expenses	16	(3,118,540)	(3,180,045)
Net impairment losses on financial assets	10,11,12	(584,848)	(693,191)
Operating loss		**(1,603,388)**	**(2,373,236)**
Finance income	15	10,076,601	7,719,623
Net fair value gains/(losses) on loans issued at fair value through profit or loss	12	(3,246,995)	-
Finance costs		(2,271)	(6,688)
PROFIT FOR THE YEAR		**5,223,947**	**5,339,699**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,223,947**	**5,339,699**

In Azerbaijani Manats	Charter capital	Transfers from Government	Retained earnings	Total equity
Balance at 1 January 2019	**100,000,000**	**497,471**	**3,014,828**	**103,512,299**
Additional investments	-	62,000,000	-	62,000,000
Profit for the year	-	-	5,339,699	5,339,699
Balance at 31 December 2019	**100,000,000**	**62,497,471**	**8,354,527**	**170,851,998**
Balance at 1 January 2020	**100,000,000**	**62,497,471**	**8,354,527**	**170,851,998**
Additional investments	-	168,000,000	-	168,000,000
Profit for the year	-	-	5,223,947	5,223,447
Balance at 31 December 2020	**100,000,000**	**230,497,471**	**13,578,474**	**344,075,945**

In Azerbaijani Manats	Note	2020	2019
Cash flows from operating activities			
Profit before income tax		5,223,947	5,339,699
Adjustments for:			
Depreciation and amortisation expenses	8	92,238	72,346
Depreciation of right-of-use assets	9	169,928	169,928
Finance income	15	(10,076,601)	(7,719,623)
Finance cost		2,271	6,688
Net impairment losses on financial assets	10	123,944	252,255
Net fair value gains/(losses) on loans issued at fair value through profit or loss		3,246,995	-
Write-off of property, equipment and intangible assets		9,898	25,444
Other operating expense /(income)		(74,442)	144,281
Operating cash flows before working capital changes		**(1,281,822)**	**(1,708,981)**
Increase in prepayments		(935)	(7,460)
Decrease/(Increase) in other assets		12,328	(95,602)
(Decrease)/Increase in trade and other payables		(16,506,275)	33,852,584
Change in working capital		**(16,494,882)**	**33,749,522**
Income taxes paid		-	(311,434)
Interest paid		(2,271)	(6,688)
Interest income received		10,456,440	7,072,483
Net cash from/(used in) operating activities		**(7,322,535)**	**38,794,901**
Cash flows from investing activities			
Payments for property, equipment and intangible assets		(167,054)	(74,657)
Payments for construction in progress		(4,236,200)	(3,722,565)
Acquisition of debt securities carried at amortised cost (from MIDA LLC)		-	(110,000,000)
Net cash used in investing activities		**(4,403,254)**	**(113,797,222)**
Cash flows from financing activities			
Additional investment from Government other than charter capital	14	168,000,000	62,000,000
Loans issued	12	(110,000,000)	-
Repayment of lease liabilities – principal		(164,249)	(167,736)
Net cash from financing activities		**57,835,751**	**61,832,264**
Cash and cash equivalents at the beginning of the year	11	**88,766,562**	**101,936,619**
Cash and cash equivalents at the end of the year	11	**134,876,524**	**88,766,562**

1 State Housing Development Agency of the Republic of Azerbaijan and its Operations

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2020 for State Housing Development Agency of the Republic of Azerbaijan (the "Agency").

The main purpose of the Agency is to organize the construction of residential buildings and other construction facilities that meet the ecological and energy efficiency requirements in the modern architectural style in the land plots allocated to it to facilitate access to affordable housing (housing at a reasonable price) for the citizens of the Republic of Azerbaijan, to participate in the implementation of policy in the field of territorial planning, design and architecture in those land plots, and to coordinate activities.

The Agency was established in accordance with Presidential Decree #858 dated 11 April 2016 "On Establishment and Arrangement of Activities of the State Agency for Housing Construction under the President of the Republic of Azerbaijan" and commenced its activity in the territory of the Republic of Azerbaijan jointly with "MIDA" LLC an entity under its supervision.

Pursuant to the Decree of the President of the Republic of Azerbaijan #1819 dated 7 February 2018 "On some issues related to ensuring the activities of the State Housing Development Agency of the Republic of Azerbaijan" Charter of the Agency was approved and registered with the Ministry of Taxes of the Republic of Azerbaijan as a legal public entity.

Control over the Agency is carried out by the President of the Republic of Azerbaijan.

According to Orders issued by the Cabinet of Ministers of the Republic of Azerbaijan #424s dated 19 July 2016, #136s dated 22 February 2017, #168s dated 03 March 2017, #37s dated 11 January 2019 ,#394s dated 07 June 2019 and #195s dated 08 may 2020 11,6 hectares of land in Yasamal district and 20 hectares of land in Hovsan district, 15,4 hectares of land in Yasamal district of Baku city, 0.76 hectares of land in Sumgayit, 6.23 hectares of land in Ganja cities and 23,25 hectares of land in Hovsan district - overall 77,24 hectares of land have been transferred to the disposal of the Agency for the construction of multi-storey residential buildings. Currently construction projects are being carried out in these land plots under supervision of the Agency.

The Agency is wholly owned by the Government of the Republic of Azerbaijan ("Government").

Principal activity. The Agency's principal activity includes but not limited to:

- participation in forming policies and implementing this policy in the relevant field;
- implementation of supervision in the relevant field and ensuring its development;
- participation in drafting regulatory legal acts related to regulation of the relevant field;
- arrangement of residential buildings meeting the requirements of ecological and energy efficiency in the modern architectural style in the land plots assigned to the Agency to meet the housing needs of citizens for residential areas in a discounted manner and to improve the housing and living conditions of the citizens;
- organization of construction of residential buildings in the land plots given to the Agency through promotion and involvement of investments, as well as other construction facilities intended for construction in residential areas, public and business zones;
- ensuring effective use of the territories of residential areas around cities taking into account the natural and local characteristics of them, as well as the preservation of urban planning and national architectural traditions (heritage) together with relevant executive authorities and local self-government bodies;
- supervision of architectural planning and design solution of construction facilities and their complexes in the land plots given to the Agency and ensuring its improvement;
- issuance of permits for the construction and operation of construction sites in the land plots assigned to the Agency;
- establishment of a unified information system and insurance of its functioning;
- analysis of the current situation on the relevant field.

1 State Housing Development Agency of the Republic of Azerbaijan and its Operations (Continued)

Registered address and place of business. The Agency's registered address is Nasimi district, Suleyman Rustam, building 31, AZ1022, Baku, Azerbaijan.

The Agency's principal place of business is 85Z, Jalil Mammadquluzadeh Street, Baku, Azerbaijan.

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

Taxation. The Agency's activities in terms of taxation are non-commercial, as it receives funds from the state budget and implements projects of social significance. In connection with this, the Agency is exempt from taxation, with the exception of taxes where the Agency acts as a tax agent (taxes on employees' salaries).

2 Operating Environment of the Agency

The Republic of Azerbaijan displays certain characteristics of an emerging market. Current and future growth and stability of the economy is largely dependent upon the effective implementation of economic, fiscal and monetary measures undertaken by government as well as crude oil prices and stability of Azerbaijani Manats.

Following the sharp economic contraction in 2016 due to negative impact of the decline in oil prices and devaluations of national currency against major international currencies, the government accelerated reforms in support of long-term economic stability and sustainability. Based on the economic reforms involving institutional changes, inflation was stable at a low single-digit rate, the economic growth remained positively zoned, the exchange rate of the national currency was sustainable and positive trends emerged in the foreign sector.

On 12 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Azerbaijani authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. The above measures were gradually relaxed and reinforced again effective December 2020. These measures have, among other things, severely restricted economic activity in Azerbaijan and have negatively impacted, and could continue to negatively impact businesses, market participants, as well as the local and global economy for an unknown period of time.

Alongside the COVID-19 outbreak, renewed hostilities began on 27 September 2020 between Azerbaijan and Armenia over Nagorno-Karabakh and Armenian-occupied territories surrounding Nagorno-Karabakh. Azerbaijan introduced martial law along with curfew and made several territorial gains over the following six weeks. An armistice agreement was signed on 09 November, 2020, which ended all hostilities in the Nagorno-Karabakh region and surrounding territories therein from 10 November, 2020.

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

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

For the purpose of measurement of expected credit losses ("ECL") on the Agency's trade receivables, contract assets and other similar assets the Agency uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 4 provides more information of how the Agency incorporated forward-looking information in the ECL models.

3 Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes effective from 1 January 2020 these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

The preparation of the 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 Agency'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 4.

Foreign currency translation. The functional currency of the Agency is the currency of the primary economic environment in which the entity operates. The functional and presentation currency of the Agency is the national currency of the Republic of Azerbaijan, Azerbaijani Manat ("AZN").

Property and equipment. Property 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 recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Agency 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 and equipment items are capitalised and the replaced part is retired.

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

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

Depreciation. Construction-in-progress is not depreciated. Depreciation of other items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	59 years
Computers	9 years
Vehicles	10 years
Furniture and other office equipment	9 years

The residual value of an asset is the estimated amount that the Agency would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the 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 Agency's intangible assets have definite useful lives and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use. All costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Computer software	5 years

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal.

3 Significant Accounting Policies (Continued)

Right-of-use assets. The Agency leases office building. Assets arising from a lease are initially measured on a present value basis. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Agency is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their contractual terms.

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 recognised 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 possible reversal at each reporting date.

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 entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

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

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

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL"). Accrued interest includes amortisation 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 amortised 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.

3 Significant Accounting Policies (Continued)

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

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. 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 recognised for financial assets measured at AC. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Agency commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. Financial assets of the Agency are classified in the measurement category of FVTPL and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Agency's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

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

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Agency assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Assets that do not meet the SPPI test on initial recognition should be mandatorily measured at FVTPL. Loans issued by the Agency during 2020 to MIDA LLC fail to meet the SPPI criteria and were classified at FVTPL.

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.

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

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. The Agency applies simplified approach for impairment of trade receivable. For other financial assets the Agency applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL").

3 Significant Accounting Policies (Continued)

If the Agency identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 18 for a description of how the Agency determines when a SICR has occurred. If the Agency determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Agency's definition of credit impaired assets and definition of default is explained in Note 18. The Note provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Agency incorporates forward-looking information in the ECL models.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Agency exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event.

Financial assets – derecognition. The Agency derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Agency has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

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

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

Financial liabilities – measurement categories. Financial liabilities of the Agency are classified as subsequently measured at amortised cost.***Financial liabilities – derecognition.*** Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Cash and cash equivalents. Cash and cash equivalents include deposits held at call with 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 payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost 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:

3 Significant Accounting Policies (Continued)

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment 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 Agency under residual value guarantees,
- the exercise price of a purchase option if the Agency is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the Agency 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 Agency, the Agency's incremental borrowing rate is used, being the rate that the Agency 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 Agency:

- where possible, uses recent third-party financing received by the Agency 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.

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 recognised 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.

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 Agency has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Agency. 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 recognised in profit or loss for the year.

Charter Capital and Transfers from Government. The Agency's capital is comprised of the charter capital and transfers from the Government. As stated in Note 1, the Agency is a state establishment. Transfers from Government to the Agency are recognized in the Agency's statement of changes in equity at the fair value on the date of payment as part of equity as Government is acting in its capacity of an owner to provide funding to the operations of the Agency.

Interest income. Interest income is recognised as it accrues using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss.

Government assistance. Government assistance relating to costs is recognised in profit or loss for the year as income in the period necessary to match it with the costs that it is intended to compensate.

Employee benefits. Wages, salaries, contributions to the Azerbaijan Republic state pension fund, paid annual leave and sick leave, bonuses, and related personal income taxes are accrued in the year in which the associated services are rendered by the employees of the Agency.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Useful lives of property and equipment. The estimation of the useful lives of items of property and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Agency. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical or commercial obsolescence arising from changes in market conditions.

Initial recognition of related party transactions. In the normal course of business, the Agency enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 7.

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 18. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Agency regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. The Agency used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model.

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

For office lease the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Agency is typically reasonably certain to extend (or not terminate) the lease.
- If any leasehold improvements are expected to have a significant remaining value, the Agency is typically reasonably certain to extend (or not terminate) the lease.

Discount rates used for determination of lease liabilities. The Agency uses its incremental borrowing rate as a base for calculation of the discount rate because the interest rate implicit in the lease cannot be readily determined.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Agency:

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

Definition of material – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform.

COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later.

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the groups of contracts (the contractual service margin). Insurers will be recognising the profit from a groups of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

6 New Accounting Pronouncements (Continued)

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- *Contractual service margin attributable to investment services*: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

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

6 New Accounting Pronouncements (Continued)

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

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Agency does not expect a material impact of the amendment on its financial statements.

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

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

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under

IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

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

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed.

6 New Accounting Pronouncements (Continued)

This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The Agency does not expect a material impact of the amendment on its financial statements.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:* For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- *End date for Phase 1 relief for non contractually specified risk components in hedging relationships:* The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- *Additional temporary exceptions from applying specific hedge accounting requirements:* The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- *Additional IFRS 7 disclosures related to IBOR reform:* The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

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

7 Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party 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 Agency decided to apply the exemption in IAS 24 from disclosure of individually insignificant transactions and balances with the government entities. In using its judgement to determine the level of detail to be disclosed the reporting entity shall consider the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transaction such as whether it is: (a) significant in terms of size; (b) carried out on non-market terms; (c) outside normal day-to-day business operations, such as the purchase and sale of businesses; (d) disclosed to regulatory or supervisory authorities; (e) reported to senior management; (f) subject to shareholder approval.

7 Balances and Transactions with Related Parties (Continued)

During the year 2019, State Housing Development Agency purchased corporate bonds amounted AZN, 110,000,000 from MIDA LLC.

The details of bonds purchased are as follows:

Bond amount (AZN)	Duration	Interest rate (%)
30,000,000	5 years	2
30,000,000	5 years	3
50,000,000	5 years	3

During 2020 the Agency issued interest-free loans in a total amount of AZN 110,000,000 to MIDA LLC. The loans are measured at FVTPL and a loss of AZN 3,246,995 (2019: nil) has been recorded in profit or loss for the year.

During 2020, the Government transferred funds amounted to AZN 9,814,619 (2019: AZN 48,600,000) to the Agency, in order to organize purchase of apartments intended for utilization of the state servants.

During December 2020 the Agency transferred AZN 26,036,178 (2019: AZN 14,714,743) to MIDA LLC, and paid charges AZN 279,886 (2019: AZN 30,183) for registration of houses and AZN 17,353,629 (2019: AZN 33,855,074) is the outstanding amount and these funds will be payable to MIDA LLC partially as the apartments are transferred to the state servants.

8 Property, equipment and intangible assets

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

In Azerbaijani Manats	Buildings	Computers	Vehicles	Furniture and other office equipment	Other	Construction in progress	Total PP&E	Intangible assets	Total
Cost at 1 January 2019	137,668	153,515	252,659	140,469	4,170	5,334	693,815	84,336	778,151
Accumulated depreciation	(99,233)	(35,478)	(78,602)	(41,532)	(273)	-	(255,118)	(10,727)	(265,845)
Carrying amount at 1 January 2019	**38,435**	**118,037**	**174,057**	**98,937**	**3,897**	**5,334**	**438,697**	**73,609**	**512,306**
Additions	-	14,573	-	4,993	4,875	5,525,907	5,550,348	50,216	5,600,564
Write-offs	-	-	-	-	(1,285)	-	(1,285)	(24,159)	(25,444)
Depreciation charge	(2,340)	(17,040)	(25,266)	(15,592)	(72)	-	(60,310)	(12,036)	(72,346)
Carrying amount at 31 December 2019	**36,095**	**115,570**	**148,791**	**88,338**	**7,415**	**5,531,241**	**5,927,450**	**87,630**	**6,015,080**
Cost at 31 December 2019	137,668	168,088	252,659	145,462	7,760	5,531,241	6,242,878	110,393	6,353,271
Accumulated depreciation	(101,573)	(52,518)	(103,868)	(57,124)	(345)	-	(315,428)	(22,763)	(338,191)
Carrying amount at 1 January 2020	**36,095**	**115,570**	**148,791**	**88,338**	**7,415**	**5,531,241**	**5,927,450**	**87,630**	**6,015,080**
Additions	-	-	118,205	-	-	3,796,859	3,915,064	48,849	3,963,913
Write-offs	-	(9,898)	-	-	-	-	(9,898)	-	(9,898)
Depreciation charge	(2,340)	(21,446)	(25,266)	(16,146)	(258)	-	(65,456)	(26,782)	(92,238)
Carrying amount at 31 December 2020	**33,755**	**84,226**	**241,730**	**72,192**	**7,157**	**9,328,100**	**9,767,160**	**109,697**	**9,876,857**
Cost at 31 December 2020	137,668	158,190	370,864	145,462	7,760	9,328,100	10,148,044	159,242	10,307,286
Accumulated depreciation	(103,913)	(73,964)	(129,134)	(73,270)	(603)	-	(380,884)	(49,545)	(430,429)
Carrying amount at 31 December 2020	**33,755**	**84,226**	**241,730**	**72,192**	**7,157**	**9,328,100**	**9,767,160**	**109,697**	**9,876,857**

Construction-in-progress ("CIP") consists of construction of the office building. Upon completion, assets are transferred to Buildings.

9 Right-of-use assets and lease liabilities

The Agency has only one lease contract with individual. The object of the lease contract is the office area where the Agency is currently located. Lease contract covers the fixed period of 12 months but has an extension option. Leased assets can not be used as a collateral for borrowing purposes.

Extension and termination options are included in the lease contract of the Agency. These are used to maximise operational flexibility in terms of managing the assets used in the Agency's operations. The majority of extension and termination options held are exercisable by both the Agency and the respective lessor.

By the end of 2021, the Agency expects to move from the currently leased office and relocate to its own office building, which is currently under construction.

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

In Azerbaijani Manats	**Buildings**	**Total**
Carrying amount at 1 January 2019	**311,535**	**311,535**
Depreciation charge	(169,928)	(169,928)
Carrying amount at 31 December 2019	**141,607**	**141,607**
Additions	144,417	144,417
Depreciation charge	(171,614)	(171,614)
Carrying amount at 31 December 2020	**114,410**	**114,410**

The Agency recognised lease liabilities as follows:

In Azerbaijani Manats	**31 December 2020**	**1 January 2020**
Short-term lease liabilities	115,921	143,799
Total lease liabilities	**115,921**	**143,799**

Interest expense included in finance costs of 2020 was AZN 2,271 (2019: AZN 6,688). Total cash outflow for leases in 2020 was AZN 164,249 (2019: AZN 174,424).

10 Investment in Debt Securities

During 2019 the Agency invested in debt securities by purchasing corporate bonds amounted AZN, 110,000,000 issued by MIDA LLC. The Agency's investment in debt securities classified are as follows:

In Azerbaijani Manats	**31 December 2020**	**31 December 2019**
Debt securities at AC	109,891,301	110,395,084
Total investments in debt securities	**109,891,301**	**110,395,084**

The table below discloses investments in debt securities by measurement categories and classes:

10 Investment in Debt Securities (Continued)

In Azerbaijani Manats	31 December 2020	31 December 2019
Investments in debt securities at gross carrying value	110,267,500	110,647,339
Less credit loss allowance	(376,199)	(252,255)
Total investments in debt securities (carrying value)	**109,891,301**	**110,395,084**

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2020 based on credit risk grades and discloses the balances by three stages for the purpose of ECL measurement. Refer to Note 18 for the description of credit risk grading system used by the Agency and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC. The carrying amount of debt securities at AC at 31 December 2020 below also represents the Agency's maximum exposure to credit risk on these assets:

In Azerbaijani Manats	Stage 1 (12-months ECL)	Total
Corporate bonds		
- Good	110,267,500	**110,267,500**
Gross carrying amount	110,267,500	**110,267,500**
Credit loss allowance	(376,199)	**(376,199)**
Carrying amount	109,891,301	**109,891,301**
Total investments in debt securities at 31 December 2020 measured at AC	109,891,301	**109,891,301**

The carrying amount of debt securities at AC at 31 December 2019 below also represents the Agency's maximum exposure to credit risk on these assets:

In Azerbaijani Manats	Stage 1 (12-months ECL)	Total
Corporate bonds		
- Good	110,647,339	**110,647,339**
Gross carrying amount	110,647,339	**110,647,339**
Credit loss allowance	(252,255)	**(252,255)**
Carrying amount	110,395,084	**110,395,084**
Total investments in debt securities at 31 December 2019 measured at AC	**110,395,084**	**110,395,084**

The debt securities at AC are not collateralised.

11 Cash and Cash Equivalents

In Azerbaijani Manats	**31 December 2020**	**31 December 2019**
Bank balances payable on demand	135,778,364	89,207,498
Less credit loss allowance	(901,840)	(440,936)
Total cash and cash equivalents at 31 December	**134,876,524**	**88,766,562**

Bank balances are denominated in AZN currency as at 31 December 2020 and 2019.

The credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2020 and 2019 is provided in the table below. For the description of the Agency's credit risk grading system, refer to Note 18:

In Azerbaijani Manats	**2020 Bank balances payable on demand**	**2019 Bank balances payable on demand**
- Satisfactory	135,778,364	89,207,498
Total cash and cash equivalents, excluding cash on hand	**135,778,364**	**89,207,498**

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1.

12 Loans issued

In Azerbaijani Manats	**2020**	**2019**
Loans issued to MIDA LLC at FVTPL	106,753,005	-
Total loans issued at 31 December	**106,753,005**	**-**

During 2020 the Agency issued interest-free loans in a total amount of AZN 110,000,000 to MIDA LLC. The loans are measured at FVTPL and a loss of AZN 3,246,995 (2019: nil) has been recorded in profit or loss for the year.

13 Trade and Other Payables

In Azerbaijani Manats	**2020**	**2019**
Allocations from the state budget for meeting housing needs of government servants	17,353,629	33,855,074
Payables for construction in progress	-	439,341
Other payables	61,472	144,282
Total financial payables within trade and other payables at AC	**17,415,101**	**34,438,697**
Trade and other payables at 31 December	**17,415,101**	**34,438,697**

Payables for construction-in-progress are payables to Torma LLC for the construction of administrative building located at S.Rustam str. 31.

14 Charter Capital

The primary source of finance for the Agency is contributions from the state budget of the Republic of Azerbaijan. The Agency is wholly state owned. During 2020 the Government contributed funds amounted to AZN, 168,000,000 (2019: AZN 62,000,000) from the state budget in order to meet the housing needs of citizens.

The charter capital of the Agency is formed of the funds provided for in subparagraph 1.13.1.2 of the Presidential Decree #1756 "On some issues related to the application of the Law of the Republic of Azerbaijan on the State Budget of the Republic of Azerbaijan for 2018" dated 25 December 2017 and Cabinet of Minister's Order #69s dated 6 February 2018 and constitute AZN 100,000,000.These funds were transferred to the current account of the Agency.

15 Finance Income

In Azerbaijani Manats	**2020**	**2019**
Interest income from financial assets held for cash management purposes:		
- Finance income from overnight deposits	7,076,601	6,252,123
- Finance income from investments in debt securities	3,000,000	1,467,500
Finance income recognised in profit or loss	**10,076,601**	**7,719,623**

Finance income from overnight deposit represents interest income earned on the current bank account held in “Kapital Bank” OJSC.

16 General and Administrative Expenses

In Azerbaijani Manats	**2020**	**2019**
Staff cost	2,509,331	2,609,115
Depreciation of right-of-use assets	171,614	169,928
Depreciation and amortisation expense	92,238	72,346
Security services	73,805	62,000
Office expenses	58,826	24,159
Professional services fees	56,051	60,003
Communication expense	33,001	31,941
Utilities expense	18,875	16,359
Bank charges	14,123	12,027
Other expense/(income) net	90,676	122,167
Total administrative and other operating expenses	**3,118,540**	**3,180,045**

Included in staff costs are statutory social security contributions of AZN 453,191(2019: AZN 439,315).

17 Contingencies and Commitments

Legal proceedings. The Agency may be a party to certain legal proceedings arising in the ordinary course of business. Management is of the opinion that there are no current legal proceedings or other claims outstanding that, upon final disposition, might have a material adverse effect on the financial position of the Agency. As at 31 December 2020, no provision has been made as the Agency's management believes that it is not likely that any significant loss will arise (no provision as at 31 December 2019).

Capital expenditure commitments. There is no significant capital expenditure contracted for at the end of the reporting period.

Guarantees. Guarantees are irrevocable assurances that the Agency will make payments in the event that another party cannot meet its obligations. The Agency has no guarantees as of 31 December 2020 and 31 December 2019.

18 Financial Risk Management

The risk management function within the Agency 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 risk), 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 proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Agency takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Agency's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Agency's financial instruments that are exposed to concentrations of credit risk consist primarily of Investments in Debt Securities, Loans issued and Cash and Cash Equivalents.

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

In Azerbaijani Manats	**2020**	**2019**
- Bank balances payable on demand (Note 11)	134,876,524	88,766,562
- Investments in debt securities (Note 10)	109,891,301	110,395,084
- Loans issued (Note 12)	106,753,005	-
Total maximum exposure to credit risk	**351,520,830**	**199,161,646**

In assessing the credit quality of financial assets, the Agency considers the nature of counterparty, historical information about counterparty default rates and any other available information, which can be used to assess credit quality.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Agency applies risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's). External credit ratings with a specified range of probabilities of default are disclosed in the table below:

Master scale credit risk grade	**Corresponding ratings of external international rating agencies (S&P)**	**Corresponding PD interval**
Excellent	*AAA to A+*	*0,01% - 0,5%*
Good	*BBB+ to B+*	*0,51% - 3%*
Satisfactory	*B, B-*	*3% - 10%*
Special monitoring	*CCC+ to CC-*	*10% - 99,9%*
Default	*C, D-I, D-II*	*100%*

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 and investment in debt securities.

Cash and cash equivalents. The Agency places its cash with reputable financial institution in the Republic of Azerbaijan. All the balances of the Agency's cash is placed with "Kapital Bank" OJSC which is independent commercial bank. The Agency continually monitors the status of the bank where its accounts are maintained.

Investment in debt securities. The Agency purchased corporate bonds from MIDA LLC – the state-owned entity that is under supervision of the Agency.

18 Financial Risk Management (Continued)

Expected credit loss (ECL) measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Agency: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate. The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement.

A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1).

If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income. If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Agency monitors whether that indicator continues to exist or has changed.

The Agency has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio; and (iii) assessment based on external ratings.

Without any sign of significant impairment risk indicator on value of bonds, loans and cash and cash equivalents, the Agency selected 12-month ECL (Stage 1). The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period.

The Agency has estimated EAD individually which equal to full amount of investment and cash balance on demand.

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 (Moody's). This approach is applied to corporate bonds issued by MIDA LLC (state owned entity) and to cash and cash equivalents placed with "Kapital Bank" OJCS.

Market risk. The Agency takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements. The management of the Agency sets limits on the value of risk that may be accepted, which is monitored on a regular 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. Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Agency is not exposed to currency risk as the Agency does not have financial assets and financial liabilities in foreign currencies as of 31 December 2020 and 31 December 2019.

Interest rate risk. The Agency 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 summarises the Agency's exposure to interest rate risks. The table presents the aggregated amounts of the Agency's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

18 Financial Risk Management (Continued)

In Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2020					
Total financial assets	241,897,029	-	-	109,623,801	351,520,830
Total financial liabilities	(75,961)	(8,749,266)	(8,705,795)	-	(17,531,022)
Net interest sensitivity gap at 31 December 2020	**241,821,068**	**(8,749,266)**	**(8,705,795)**	**109,623,801**	**333,989,808**
31 December 2019					
Total financial assets	89,413,901	-	-	109,747,745	199,161,646
Total financial liabilities	(598,098)	(16,998,954)	(16,985,444)	-	(34,582,496)
Net interest sensitivity gap at 31 December 2019	**88,815,803**	**(16,998,954)**	**(16,985,444)**	**109,747,745**	**164,579,150**

At the reporting date the interest rate profile of the Agency's interest-bearing financial instruments includes only fixed rate corporate bonds. There is no significant exposure to change in interest rate risk.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. An entity is exposed to daily calls on its available cash resources. Management monitors weekly rolling forecasts of the Agency's cash flows.

The Agency seeks to maintain a stable funding base primarily consisting of equity funding. The Agency's liquidity portfolio comprises cash and cash equivalents and investment in debt securities.

The tables below show liabilities at 31 December 2020 and 31 December 2019 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period.

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

In Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Total
Liabilities				
Lease liabilities	14,535	29,070	72,675	116,280
Other financial payables	61,471	4,338,407	13,015,222	17,415,100
Total future payments, including future principal and interest payments	**76,006**	**4,367,477**	**13,087,897**	**17,531,380**

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

In Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Total
Liabilities				
Lease liabilities	14,535	29,071	101,747	145,353
Trade payables	439,341	-	-	439,341
Other financial payables	144,282	11,285,025	22,570,049	33,999,356
Total future payments, including future principal and interest payments	**598,158**	**11,314,096**	**22,671,796**	**34,584,050**

19 Management of Capital

The Agency's objectives when managing capital are to safeguard the Agency's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital that the Agency managed as of 31 December 2020 was 344,075,945AZN (2019: AZN 170,851,998). The Agency does not have any specific regulatory ratios with respect to capital being managed.

20 Fair Value of Financial Instruments

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

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

The carrying values of the Agency's assets and liabilities not measured at fair value but for which fair value is disclosed are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Agency for similar financial instruments.

21 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at amortised 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.

All financial assets except for loans issued and liabilities are carried at amortised cost as of 31 December 2020 and 31 December 2019.

22 Events after the Reporting Period

COVID-19 developments. Since the end of 2019, the spread of COVID-19 has begun and continues up till now affecting business activities of companies across various industries. The management of the Agency believes that its operations will not be significantly affected by the virus as at the date of issuing the financial statements due to the nature of its operations and importance to the state.

Financing activities. In accordance with the decrees #126S and #2522 issued by the Cabinet of Ministers and the President of the Republic of Azerbaijan on 16 February and 26 February 2021, AZN 73,100,000 and AZN 69,150,000 were allocated from the state budget, respectively. The allocation was made for the purpose of construction of multi-apartment buildings and creation of necessary infrastructure in order to meet the needs of the citizens of the Republic of Azerbaijan to improve their housing and living conditions.