ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

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

ENTREPRENEURSHIP DEVELOPMENT FUND OF THE REPUBLIC OF AZERBAIJAN

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

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the financial statements of the Entrepreneurship Development Fund of the Republic of Azerbaijan (the "Fund").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Fund as at December 31, 2021, the results of its operations, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRSs").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended December 31, 2021 were authorized for issue on April 27, 2022 by the Management.

On behalf of the Management:

Osman Khaliyev
Deputy Chairman of the Executive Board

April 27, 2022
Baku, the Republic of Azerbaijan

AZƏRBAYCAN RESPUBLİKASI İQTİSADİYYAT NAZİRLİYİ SAHİBKARLIĞIN İNKİŞAFI FONDU

Aynur Jabrailova
Chief Accountant

April 27, 2022
Baku, the Republic of Azerbaijan

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Executive Board of the Entrepreneurship Development Fund of the Republic of Azerbaijan:

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter – Reorganization of the Fund

As disclosed in Note 1 to the financial statements, the president of the Republic of Azerbaijan signed a decree on "improving governance for the development of entrepreneurship" on October 11, 2021. According to the decree the Fund and "Azerbaijan Investment Company" OJSC will be merged and new public legal entity Azerbaijan Business Development Fund will be established under the Ministry of Economy. After completion of registration process of new company, operations of the Fund will be cancelled and transferred to the new entity. Until then the Fund will continue its operations under existing conditions. The assets and liabilities will be transferred to a new established entity based on their book values as at the date of the transfer. As at the date of this report, the reorganization process has not yet completed. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of the Fund for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 23, 2021.

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

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

In preparing the financial statements, management is responsible for assessing the Fund'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 Fund or to cease operations, or have no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Baker Tilly Azerbaijan

April 27, 2022
Baku, Republic of Azerbaijan

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Cash and cash equivalents	8	40,036	95,453
Deposits at banks	9	59,525	30,083
Investment securities	10	19,008	-
Loans to credit institutions	11	716,396	735,813
Property and equipment and intangible assets	12	7,093	6,666
Other assets	13	50	122
TOTAL ASSETS		**842,108**	**868,137**
LIABILITIES AND EQUITY			
LIABILITIES			
Government subsidies to customers	14	16,692	49,467
Other liabilities	15	294	63
Total liabilities		**16,986**	**49,530**
EQUITY			
Charter capital	16	1,007,307	1,007,307
Other reserves	17	(6,399)	4,769
Accumulated losses		(175,786)	(193,469)
Total equity		**825,122**	**818,607**
TOTAL LIABILITIES AND EQUITY		**842,108**	**868,137**

On behalf of the Management:

Osman Khaliyev
Deputy Chairman of the Executive Board

April 27, 2022
Baku, the Republic of Azerbaijan

Aynur Jabrailova
Chief Accountant

April 27, 2022
Baku, the Republic of Azerbaijan

The notes on pages 8-46 form an integral part of these financial statements.

AZƏRBAYCAN RESPUBLİKASI İQTİSADİYYAT NAZİRLİYİ SAHİBKARLIĞIN İNKİŞAFI FONDU

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
Interest income	18	11,657	9,416
Other operating income	19	2,482	690
Operating income		**14,139**	**10,106**
Recovery/(charge) of expected credit losses	11	10,435	(37,102)
Operating expenses	20	(6,086)	(5,012)
Profit/(loss) before income tax		**18,488**	**(32,008)**
Income tax expense	21	(805)	(221)
Profit/(loss) for the year		**17,683**	**(32,229)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**17,683**	**(32,229)**

On behalf of the Management:

Osman Khaliyev
Deputy Chairman of the Executive Board

April 27, 2022
Baku, the Republic of Azerbaijan

Aynur Jabrailova
Chief Accountant

April 27, 2022
Baku, the Republic of Azerbaijan

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AZƏRBAYCAN RESPUBLİKASI İQTİSADİYYAT NAZİRLİYİ SAHİBKARLIĞIN İNKİŞAFI FONDU

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

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

	Charter capital	Other reserves	Accumulated losses	Total equity
January 1, 2020	**1,007,307**	**6,097**	**(161,240)**	**852,164**
Change in other reserves	-	(1,328)	-	(1,328)
Total comprehensive loss for the year	-	-	(32,229)	(32,229)
December 31, 2020	**1,007,307**	**4,769**	**(193,469)**	**818,607**
Change in other reserves	-	(11,168)	-	(11,168)
Total comprehensive income for the year	-	-	17,683	17,683
December 31, 2021	**1,007,307**	**(6,399)**	**(175,786)**	**825,122**

On behalf of the Management:

Osman Khaliyev
Deputy Chairman of the Executive Board

April 27, 2022
Baku, the Republic of Azerbaijan

Aynur Jabrailova
Chief Accountant

April 27, 2022
Baku, the Republic of Azerbaijan

The notes on pages 8-46 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020 (restated/ reclassified)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		8,248	8,734
Net other operating income received		2,494	685
Staff costs paid		(4,261)	(3,984)
Other operating expenses paid		(1,269)	(570)
Cash inflow from operating activities before changes in operating assets		**5,212**	**4,865**
Net change in loans to credit institutions		30,135	16,577
Net change in government subsidies to customers		(32,776)	49,467
Cash inflow from operating activities before income tax		**2,571**	**70,909**
Income tax paid		(170)	(74)
Net cash generated by operating activities		**2,401**	**70,835**
CASH FLOWS FROM INVESTING ACTIVITIES			
Placement of deposits, net		(27,000)	(30,000)
Investment in securities		(18,725)	-
Payment for property, equipment and intangible assets		(925)	(407)
Net cash used in investing activities		**(46,650)**	**(30,407)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of subsidies from the Fund's reserves		(10,519)	-
Other transfers to the Government		(649)	(1,328)
Net cash used in financing activities		**(11,168)**	**(1,328)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(55,417)	39,100
CASH AND CASH EQUIVALENTS, *at the beginning of the year*	8	95,453	56,353
CASH AND CASH EQUIVALENTS, *at the end of the year*	8	40,036	95,453

On behalf of the Management:

Osman Khaliyev
Deputy Chairman of the Executive Board

April 27, 2022
Baku, the Republic of Azerbaijan

Aynur Jabrailova
Chief Accountant

April 27, 2022
Baku, the Republic of Azerbaijan

The notes on pages 8-46 form an integral part of these financial statements.

AZƏRBAYCAN RESPUBLİKASI İQTİSADİYYAT NAZİRLİYİ SAHİBKARLIĞIN İNKİŞAFI FONDU

1. THE FUND AND ITS OPERATIONS

The Entrepreneurship Development Fund of the Republic of Azerbaijan (the "Fund") is a financial institution providing state support to the development of the entrepreneurship in the Republic of Azerbaijan. The main aim of the Fund is to increase the employment activity of the population and provide them with preferential loans to entrepreneurs in the Republic of Azerbaijan by providing them with financial support. In order to improve the support mechanism for entrepreneurship development, create new production and processing enterprises based on innovative technologies in the non-oil sector, ensure the financing of export operations, accelerate investments in the real sector and expand access to financial resources of business units operating in the private sector, the National Fund for Entrepreneurship Support of the Republic of Azerbaijan was reorganized as and the Entrepreneurship Development Fund, as a public legal entity under the Ministry of Economy by the Presidential Decree "On Improvement of the state support mechanism for entrepreneurship development in the Republic of Azerbaijan" dated July 31, 2018. The application of the new procedures will form opportunities for expansion of entrepreneurs' access to concessional financial resources and non-oil production and exports, reduction of production expenses and product cost, creation of new production areas and wider use of the state support mechanisms by the private sector. In order to regulate the activities of the Fund in accordance with the priorities and long-term goals of economic development of the Republic of Azerbaijan, the "Charter of the Entrepreneurship Development Fund" and "Rules of use of the Entrepreneurship Development Fund" was approved by the Decree of the President of the Republic of Azerbaijan dated July 31, 2018. According to the rules, all banks and non-bank credit organizations licensed by the Central Bank of the Republic of Azerbaijan in accordance with the criteria set by the Supervisory Board of the Fund may participate in the issuance of concessional loans as an authorized credit institution.

Main responsibilities of the Fund include:

- To finance investment projects of entrepreneur's entities in compliance with national legislation in line with priorities of the social and economic development priorities of the Republic of Azerbaijan;
- Undertake activities to mobilize financial resources, including negotiating and making proposals on borrowing from financial markets;
- Ensure efficient and purposeful use of resources allocated to the Fund for entrepreneurship support;
- To carry out examination of investment projects to be financed at the expense of the Fund;
- Give preference to financing investment projects that are in line with state programs on entrepreneurship development;
- Participate in the development and implementation of sectoral and regional programs that ensure the development of entrepreneurship and the creation of new job opportunities;
- To set minimum requirements for the preparation of investment projects and criteria for evaluating investment projects for obtaining concessional loans at the expense of the Fund;
- To establish rules for monitoring in order to control the use of loans in accordance with their purpose;
- Collection and dissemination of legal, economic and other information required for entrepreneurs, researching market conjuncture, supporting the development of programs and investment projects for entrepreneurship development;
- To support the training and professional development of personnel for business entities;
- To assist in the expansion of foreign economic activity of business entities;
- To assist in the formation and development of market infrastructure of entrepreneurship in the country;

- To assist in the promotion of scientific and technical knowledge and innovations necessary for business entities;
- Carry out other duties in accordance with the legislation.

According to the approved Charter of the Fund, the following sources may form the capital of the Fund for implementation of the main activities:

- Allocations of the state budget of the Republic of Azerbaijan;
- Revenues from the Fund's activities, including the basis for concessional loans;
- Voluntary donations made by local and foreign legal entities and individuals;
- Financial aids and grants contributed by foreign countries and international organizations, as well as loans acquired by the state in local and foreign financial markets meeting requirements of the state; and
- Other sources as stipulated in the legislation.

On October 11, 2021, the president of the Republic of Azerbaijan signed a decree on "improving governance for the development of entrepreneurship". According to the decree the Fund and "Azerbaijan Investment Company" OJSC will be merged and new public legal entity Azerbaijan Business Development Fund will be established under the Ministry of Economy. After completion of registration process of new company, operations of the Fund will be cancelled and transferred to the new entity.

Registered address and place of operations

The Fund's registered address and place of business is 172 Abbas Mirza Sharifzade Street, AZ1122, Baku, the Republic of Azerbaijan. As at December 31, 2021, the Fund had 77 employees (2020: 83 employees).

2. OPERATING ENVIRONMENT OF THE FUND

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

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

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

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

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

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

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

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

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

The future economic growth of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The Management is unable to predict, all developments in the economic environment which would have an impact on the Fund's operations and consequently what effect, if any, they could have on the financial position of the Fund.

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, except measurement at fair value of certain financial instruments. The reporting date of the Fund's financial statements is December 31.

The principal accounting policies applied in the preparation of these financial statements are set out below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund'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.

Going concern

As disclosed in Note 1 to the financial statements, following the decree of the president of the Republic of Azerbaijan on "improving governance for the development of entrepreneurship" dated October 11, 2021 the operations of the Fund will be cancelled and transferred to a new public legal entity Azerbaijan Business Development Fund after completion of registration process of a new company. Until then the Fund will continue its operations under existing conditions. The assets and liabilities will be transferred to a new established entity based on their book values as at the date of the transfer. Accordingly, assets and liabilities are recorded on the basis that the Fund will be able to realize its assets and discharge its liabilities in the normal course of business.

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

Functional and presentation currency

The functional currency of the Fund is Azerbaijani Manat ("AZN") as, being the national currency of the Republic of Azerbaijan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The AZN is also the presentation currency for the purposes of these financial statements.

Financial information presented in AZN is rounded to the nearest thousand, unless otherwise stated.

Financial instruments - key measurement terms

Financial instrument is any contract that gives rise to a financial asset of the Fund and a financial liability or equity instrument of another entity.

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

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

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 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.

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 net carrying amount of the financial instrument.

The effective interest rate discounts gross 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

When financial assets are initially recognized, they are classified accordingly in one of the following categories: (1) financial assets recognized at fair value through profit or loss (FVTPL), and (2) financial assets recognized at fair value in other comprehensive income (FVTOCI) or (3) financial assets recorded at amortized cost ("AC").

Financial instruments at FVTPL, if any, 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 that the Fund commits to deliver a financial asset. All other purchases are recognised when the Fund becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories

The Fund classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (I) the Fund's business model for managing the related assets portfolio and (II) the cash flow characteristics of the asset.

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

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

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

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

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

All other financial assets are classified as measured at FVPL.

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

Financial assets – classification and subsequent measurement – business model

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

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

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 Fund assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Fund considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, prepayment and extension terms, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Fund in performing the SPPI test for its financial assets.

Financial assets – reclassification

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

Financial assets impairment – credit loss allowance for ECL

The Fund assesses, on a forward-looking basis, the ECL for loan portfolio and financial instruments measured at AC. The Fund measures ECL and recognises credit loss allowance on 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. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Fund applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Fund 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 4 for a description of how the Fund determines when a SICR has occurred. If the Fund determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. Note 22 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Fund incorporates forward-looking information in the ECL models.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Financial assets – write-off

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

Financial assets – derecognition

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

Financial liabilities – measurement categories

Financial liabilities are classified as either: – Financial liabilities at amortised cost; or – Financial liabilities as at fair value through profit or loss (FVTPL).

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the current year profit.

Cash and cash equivalents

Cash and cash equivalents are short-term items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents consist of cash on hand in local currency and unrestricted balances on correspondent accounts. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. 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.

Investments in debt securities

Based on the business model and the cash flow characteristics, the Fund classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognized in profit or loss. An impairment allowance estimated using the expected credit loss model is recognized in profit or loss for the year. All other changes in the carrying value are recognized in OCI. When the debt security is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Fund may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognized or measured on different accounting bases.

Government subsidies to customers

The balance of Government subsidies to customers represent the amount of subsidy transferred to the Fund in accordance with requirements of the Presidential Decree and Resolutions, to subsidize interest rates on bank loans to be issued to businesses operating in areas affected by the Coronavirus pandemic.

Taxation

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

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

The income of state authorities, budget organizations, local self-government bodies and income of public legal entities established on behalf of the state (excluding income from entrepreneurial activities and interest income) are tax free.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if:

- The Fund has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The Republic of Azerbaijan also has various other taxes, which are assessed on the Fund’s activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and amortization and any recognized impairment loss.

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation and amortization are charged on the carrying value of property, equipment and intangible assets and are designed to write off assets over their useful economic lives. The estimated useful lives, residual values and depreciation/amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

	Useful lives in years
Buildings	20
Vehicles	4
Office and computer equipment	4
Furniture and fixtures	4
Intangible assets	10

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss accounts.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.
A reversal of an impairment loss is recognized immediately in profit or loss.

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

Charter capital

The Fund’s capital is comprised of the charter capital, accumulated losses and other reserves. As stated in Note 1, the Fund is a state establishment. The Ministry of Finance of the Republic of Azerbaijan is an executive financial agent for transfer of funds to the Fund. Transfers to and from the Fund are recognized in the Fund’s statement of changes in equity at the fair value on the date of payment.

Interest income recognition

Interest income is recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision.

Fees and commission

Fee and commission income is recognized as the related services are performed.

The commission fee for the Government guarantees is calculated in the amount of 0.5% of the total amount of the guarantee issued to the credit organization by the Government from the date that the guarantee is effective. The one-time guarantee fee is calculated at 1% of the loan amount issued by the credit organization, 50% of the guarantee fee is transferred to the Ministry of Finance in accordance with the rules and the rest is recognized as income. The Fund fulfils the role of agent and does not bear liability for the guarantees issued by the Government.

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but is disclosed when an inflow of economic benefits is probable.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions

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

Presentation of statement of financial position in order of liquidity

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 22.

Restatements and reclassifications

During the year ended December 31, 2021, the management made certain reclassifications and restatements in the statement of cash flows for the year ended December 31, 2020 in order to conform to the presentation of the year ended December 31, 2021, as the current year presentation provides correct or better view of the statement of the of cash flow of the Fund.

	Notes	As previously reported Year ended December 31, 2020	Restatement/ Reclassification amount Year ended December 31, 2020	As restated/ reclassified Year ended December 31, 2020
Cash flows from operating activities				
Settlements on contribution from the Government	(a)	(1,328)	1,328	-
Transfers from the Government for subsidies	(b)	70,000	(70,000)	-
Payments of the subsidies from the Government	(b)	(20,533)	20,533	-
Net change in government subsidies to customers	(b)	-	49,467	49,467
Cash flows from financing activities				
Other transfers to the Government	(a)	-	(1,328)	(1,328)

(a) Certain transactions were reclassified from operating activities to financing activities.
(b) Certain transactions were reclassified from operating activities before changes in operating assets and presented as change in operating assets.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Fund 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:

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 22. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"). The Fund 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 Fund used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model.

Significant increase in credit risk ("SICR")

In order to determine whether there has been a significant increase in credit risk, the Fund compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Fund considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular borrowers. The Fund identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward-looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level.

Business model assessment

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Fund considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate.

The Fund assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Fund's control, is not recurring and could not have been anticipated by the Fund, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI")

Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement. The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months' interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets. The Fund applied a threshold of 5% to determine whether differences against a benchmark instruments are significantly different. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

The Fund identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract.

The asset's principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par value and accrued interest and a reasonable additional compensation for the early termination of the contract, and (iii) the fair value of the prepayment feature is immaterial at initial recognition.

Modification of financial assets

When financial assets are contractually modified (e.g. renegotiated), the Fund assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Fund applies judgment in deciding whether credit-impaired renegotiated loans should be derecognized and whether the new recognized loans should be considered as credit-impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications.

Useful life of property and equipment

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

Initial recognition of related party transactions

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

Government subsidies to customers

The balance of Government subsidies to customers represent the amount of subsidy transferred to the Fund in accordance with requirements of the Presidential Decree and Resolutions, to subsidize interest rates on bank loans to be issued to businesses operating in areas affected by the Coronavirus pandemic.

The amount of the subsidy balance is payable on government instruction and is not restricted from use in the normal course of business. Therefore, the balance is included as a cash and cash equivalent and recognized as liability.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

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

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

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

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

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

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

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

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

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

The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. The impact of the adoption of this standard had an immaterial effect on the financial statements.

Unless otherwise disclosed, the new adopted standards did not have material effect on the financial statements of the Fund.

6. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

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

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

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. This standard is not applicable to the Fund.

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Earlier application is permitted. The Fund is currently assessing the impact the amendments will have on the current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3 In May 2020, the IASB issued **Amendments to IFRS 3 "Business Combinations" – Reference to the Conceptual Framework.** The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16. In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Fund.

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

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

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

"IAS 41 Agriculture" – Taxation in fair value measurements. As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Fund.

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

Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

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

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

7. RELATED PARTY BALANCES AND TRANSACTIONS

For the purposes of these financial statements, parties are generally considered to be related if the parties are directly or indirectly under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties. Transactions with related parties may not be considered compatible to the conditions of the transactions between commercially independent parties.

The Fund is controlled by the Government of the Republic of Azerbaijan. Therefore, in accordance with IAS 24 transactions with the Government, government bodies and entities controlled by the government of the Republic of Azerbaijan are included in the related party balances and transactions.

The Fund applied the exemption in paragraph 25 of IAS 24 “Related Party Disclosures” regarding the disclosure requirement for government related entities.

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

(a) a government that has control or joint control of, or significant influence over, the reporting entity; and

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

The nature of transactions with government related entities include purchase of electricity and rendering and receiving other services.

Details of balances between related parties as at December 31, 2021 and 2020 are disclosed in below table:

		December 31, 2021		December 31, 2020	
	Notes	**Related party balances**	**Total category as per the statement of financial position**	**Related party balances**	**Total category as per the statement of financial position**
Cash and cash equivalents	8		**40,036**		**95,453**
- *the government* or *entities controlled by the government*		14,719		279	
Investment securities	10		**19,008**		**-**
- *the government* or *entities controlled by the government*		19,008		-	
Loans to credit institutions	11		**716,396**		**735,813**
- *the government* or *entities controlled by the government*		60,839		53,288	

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

Included in the statement of comprehensive income are the following amounts were recognized in transactions with related parties:

		Year ended December 31, 2021		Year ended December 31, 2020	
	Notes	**Related party amounts**	**Total category as per the statement of comprehensive income**	**Related party amounts**	**Total category as per the statement of comprehensive income**
Interest income	18		**11,657**		**9,416**
- *the government* or *entities controlled by the government*		563		567	
Other operating income	19		**2,482**		**690**
- *the government* or *entities controlled by the government*		155		84	

The remuneration of key management personnel included salaries, other short term benefits and social expenses totalling AZN 463 thousand and AZN 430 thousand for the years ended December 31, 2021 and 2020, respectively.

8. CASH AND CASH EQUIVALENTS

	December 31, 2021	**December 31, 2020**
Current accounts with the CBAR	14,719	279
Current accounts with other credit institutions	25,317	95,174
Total cash and cash equivalents	**40,036**	**95,453**

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Fund did not recognise any credit loss allowance for cash and cash equivalents. The ECL measurement approach is presented in Note 22.

9. DEPOSITS AT BANKS

Deposits at banks comprise:

	December 31, 2021	**December 31, 2020**
Term deposit in local banks	59,525	30,083
Total deposits at banks	**59,525**	**30,083**

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

As at December 31, 2021, the Fund's deposits are placed in the following banks:

Bank name	Contract date	Maturity date	Currency	Annual interest rate	Amount per contract	December 31, 2021
"Ziraatbank" OJSC	16.03.2021	16.03.2022	AZN	8.00%	5,000	5,000
"Bank Respublika" OJSC	16.03.2021	16.03.2022	AZN	8.50%	5,000	5,000
"Rabitabank" OJSC	19.03.2021	19.03.2023	AZN	8.00%	5,000	5,000
"Pashabank" OJSC	08.04.2021	08.04.2022	AZN	6.50%	10,000	10,000
"Bank Respublika" OJSC	13.04.2021	13.04.2022	AZN	8.50%	2,500	2,500
"Pashabank" OJSC	13.04.2021	13.04.2022	AZN	6.50%	2,500	2,500
"Ziraatbank" OJSC	16.04.2021	16.04.2022	AZN	8.00%	2,500	2,500
"Bank of Baku" OJSC	16.04.2021	16.04.2022	AZN	9.50%	7,500	7,500
"Ziraatbank" OJSC	28.04.2021	28.04.2022	AZN	8.00%	2,500	2,500
"Expressbank" OJSC	03.05.2021	03.05.2022	AZN	7.00%	2,500	2,500
"Bank Respublika" OJSC	01.07.2021	01.01.2022	AZN	5.00%	5,000	5,000
"Ziraatbank" OJSC	12.11.2021	12.11.2022	AZN	6.80%	7,000	7,000
Interest receivable						2,525
Total						**59,525**

As at December 31, 2020, the Fund's deposits are placed in the following banks:

Bank name	Contract date	Maturity date	Currency	Annual interest rate	Amount per contract	December 31, 2020
"Pashabank" OJSC	05.03.2020	06.03.2021	AZN	4%	10,000	10,000
"Pashabank" OJSC	05.03.2020	06.03.2021	AZN	4%	10,000	10,000
"Pashabank" OJSC	05.03.2020	06.03.2021	AZN	4%	10,000	10,000
Interest receivable						83
Total						**30,083**

For the purpose of ECL measurement deposits at banks are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Fund did not recognise any credit loss allowance for deposits at banks. The ECL measurement approach is presented in Note 22.

10. INVESTMENT SECURITIES

Investment securities comprise:

	December 31, 2021	December 31, 2020
Fixed income bonds	19,008	-
Total investment securities	**19,008**	**-**

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

As at December 31, 2021, the Fund's investment securities are as follows:

Issuer	Investment date	Maturity date	Currency	Annual interest rate	Amount per contract	December 31, 2021
Ministry of Finance	16.03.2021	12.03.2024	AZN	7.50%	10,000	10,000
Ministry of Finance	27.04.2021	26.04.2022	AZN	7.98%	1,042	1,042
Ministry of Finance	24.08.2021	22.02.2022	AZN	9.00%	6,105	6,105
Ministry of Finance	31.08.2021	01.03.2022	AZN	5.98%	301	301
Ministry of Finance	14.09.2021	15.03.2022	AZN	8.98%	515	515
Ministry of Finance	12.10.2021	29.03.2022	AZN	0% (discount bond)	762	762
Interest receivable						283
Total						**19,008**

The investment securities are classified as amortized cost.

For the purpose of ECL measurement investment securities are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Fund did not recognise any credit loss allowance for investment securities. The ECL measurement approach is presented in Note 22.

11. LOANS TO CREDIT INSTITUTIONS

Loans to credit institutions comprise:

	December 31, 2021	December 31, 2020
Gross carrying amount of loans to credit institutions at AC	972,060	1,002,149
Less: allowance for expected credit loss	(255,664)	(266,336)
Total loans to credit institutions	**716,396**	**735,813**

The Fund uses the following credit limit ranges to classify loans:

- Small loans, up to AZN 50,000;
- Medium loans, from AZN 50,001 to AZN 1,000,000;
- Large loans, from 1,000,001 to AZN 10,000,000.

As at December 31, 2021 and 2020, gross carrying amount and allowance for expected credit loss amount for loans to credit institutions at amortised cost by classes are disclosed in the table below:

December 31, 2021	Gross carrying amount	Allowance for expected credit loss	Carrying amount
Large loans	745,344	(176,226)	569,118
Medium loans	107,740	(27,657)	80,083
Small loans	118,976	(51,781)	67,195
Total loans to credit institutions at AC	**972,060**	**(255,664)**	**716,396**

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

December 31, 2020	Gross carrying amount	Allowance for expected credit loss	Carrying amount
Large loans	835,773	(190,622)	645,151
Medium loans	95,396	(27,815)	67,581
Small loans	70,980	(47,899)	23,081
Total loans to credit institutions at AC	**1,002,149**	**(266,336)**	**735,813**

The following table discloses the changes in gross carrying amount for loans to credit institutions carried at amortised cost between the beginning and the end of the reporting period:

	Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
January 1, 2021	**727,759**	**36,817**	**237,573**	**1,002,149**
New originated or purchased	146,810	-	-	146,810
Derecognized or repaid	(127,778)	(36,736)	(12,536)	(177,050)
Changes in accrued interest	(21)	1	171	151
Total movement in the gross carrying amount for the year	**19,011**	**(36,735)**	**(12,365)**	**(30,089)**
Allowance for expected credit loss	(41,358)	(62)	(214,244)	(255,664)
December 31, 2021	**705,412**	**20**	**10,964**	**716,396**

	Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
January 1, 2020	**727,069**	**56,679**	**234,487**	**1,018,235**
New originated or purchased	87,642	8,207	-	95,849
Derecognized or repaid	(86,974)	(28,069)	2,616	(112,427)
Changes in accrued interest	22	-	470	492
Total movement in the gross carrying amount for the year	**690**	**(19,862)**	**3,086**	**(16,086)**
Allowance for expected credit loss	(30,976)	(10,392)	(224,968)	(266,336)
December 31, 2020	**696,783**	**26,425**	**12,605**	**735,813**

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

The following tables show reconciliations between opening and closing balances of loans to credit institutions for 2021:

	Stage1	Stage2	Stage3	Total
January 1, 2021	**727,759**	**36,817**	**237,573**	**1,002,149**
Transfer to stage 1	25,318	(25,318)	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
New recognized	146,810	-	-	146,810
Other movements	(153,117)	(11,417)	(12,128)	(176,662)
Write off	-	-	(237)	(237)
December 31, 2021	**746,770**	**82**	**225,208**	**972,060**

	Stage1 (ECL)	Stage2 (ECL)	Stage3 (ECL)	Total (ECL)
January 1, 2021	**30,976**	**10,392**	**224,968**	**266,336**
Transfer to stage 1	4,932	(4,932)	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
New recognized	13,239	-	-	13,239
Other movements	(7,789)	(5,398)	(10,487)	(23,674)
Write off	-	-	(237)	(237)
December 31, 2021	**41,358**	**62**	**214,244**	**255,664**

The following tables show reconciliations between opening and closing balances of loans to credit institutions for 2020:

	Stage1	Stage2	Stage3	Total
January 1, 2020	**727,069**	**56,679**	**234,487**	**1,018,235**
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	(6,396)	(32)	6,428	-
New recognized	86,645	8,189	-	94,834
Other movements	(79,559)	(28,019)	(3,342)	(110,920)
December 31, 2020	**727,759**	**36,817**	**237,573**	**1,002,149**

	Stage1 (ECL)	Stage2 (ECL)	Stage3 (ECL)	Total (ECL)
January 1, 2020	**31,462**	**10,213**	**187,559**	**229,234**
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	(4,996)	(29)	5,025	-
New recognized	4,255	2,169	-	6,424
Other movements	255	(1,961)	32,384	30,678
December 31, 2020	**30,976**	**10,392**	**224,968**	**266,336**

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

Movements in the ECL allowance against loans to credit institutions during the year ended December 31, 2021 are as follows:

	Small loans	Medium loans	Large loans	Total
Balance at the beginning of the year	**(46,945)**	**(7,554)**	**(211,837)**	**(266,336)**
Net (charge)/recovery for the year	(2,333)	(971)	13,976	10,672
Balance at the end of the year	**(49,278)**	**(8,525)**	**(197,861)**	**(255,664)**

Movements in the ECL allowance against loans to credit institutions during the year ended December 31, 2020 are as follows:

	Small loans	Medium loans	Large loans	Total
Balance at the beginning of the year	**(40,799)**	**(7,142)**	**(181,293)**	**(229,234)**
Net charge for the year	(6,146)	(412)	(30,544)	(37,102)
Balance at the end of the year	**(46,945)**	**(7,554)**	**(211,837)**	**(266,336)**

Allowance for expected credit loss for loans to credit institutions recognized in the period is impacted by a variety of factors. Details of ECL measurement are provided in Note 22.

As at December 31, 2021, the credit quality of loans to credit institutions carried at amortized cost is as follows:

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Less than 30 days	746,006	-	537	746,543
30 to 90 days overdue	-	1	107	108
91 to 180 days overdue	-	1	143	144
181 to 360 days overdue	-	-	331	331
Over 360 days overdue	764	80	224,090	224,934
Gross carrying amount	**746,770**	**82**	**225,208**	**972,060**
Allowance for expected credit loss	(41,358)	(62)	(214,244)	(255,664)
Carrying amount	**705,412**	**20**	**10,964**	**716,396**

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

As at December 31, 2020, the credit quality of loans to credit institutions carried at amortized cost is as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	(12-months ECL)	**(lifetime ECL for SICR)**	**(lifetime ECL for credit impaired)**	
Less than 30 days	727,758	36,736	4,395	768,889
30 to 90 days overdue	-	-	-	-
91 to 180 days overdue	-	-	-	-
181 to 360 days overdue	-	-	6,396	6,396
Over 360 days overdue	-	82	226,782	226,864
Gross carrying amount	**727,758**	**36,818**	**237,573**	**1,002,149**
Allowance for expected credit loss	(30,976)	(10,392)	(224,968)	(266,336)
Carrying amount	**696,782**	**26,426**	**12,605**	**735,813**

Economic sector risk concentrations within the loan portfolio are as follows:

	December 31, 2021		**December 31, 2020**	
	Amount	**%**	**Amount**	**%**
Agriculture	640,333	65.87	659,383	65.80
Industry	220,063	22.64	219,766	21.93
Service	111,664	11.49	123,000	12.27
Gross carrying amount of loans to credit institutions carried at amortized cost	**972,060**	**100**	**1,002,149**	**100**

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

12. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Building	Vehicles	Office and computer equipment	Furniture and fixtures	Intangible assets	Total
Initial cost						
January 1, 2020	**6,639**	**260**	**250**	**197**	**81**	**7,427**
Additions	-	124	-	3	165	292
December 31, 2020	**6,639**	**384**	**250**	**200**	**246**	**7,719**
Additions	4	-	492	15	467	978
Disposals	-	(47)	(111)	(33)	(44)	(235)
December 31, 2021	**6,643**	**337**	**631**	**182**	**669**	**8,462**
Accumulated depreciation and amortisation						
January 1, 2020	**(172)**	**(47)**	**(172)**	**(175)**	**(50)**	**(616)**
Charge for the year	(332)	(58)	(28)	(9)	(10)	(437)
December 31, 2020	**(504)**	**(105)**	**(200)**	**(184)**	**(60)**	**(1,053)**
Charge for the year	(332)	(86)	(73)	(8)	(38)	(537)
Eliminated on disposals	-	40	111	33	37	221
December 31, 2021	**(836)**	**(151)**	**(162)**	**(159)**	**(61)**	**(1,369)**
Net book value						
December 31, 2021	**5,807**	**186**	**469**	**23**	**608**	**7,093**
December 31, 2020	**6,135**	**279**	**50**	**16**	**186**	**6,666**

As at December 31, 2021 and 2020, there was no property and equipment subject to pledge as collateral.

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

13. OTHER ASSETS

Other assets comprise:

	December 31, 2021	December 31, 2020
Low value inventory items	41	-
Prepayments	9	122
Total other assets	**50**	**122**

As at December 31, 2021 and 2020, prepayments mainly include advances made to suppliers for purchase of goods, services and intangible assets.

14. GOVERNMENT SUBSIDIES TO CUSTOMERS

Approved by the Decree #1052 of the President of the Republic of Azerbaijan dated June 4, 2020 and the Resolution #249 of the Cabinet of Ministers of the Republic of Azerbaijan dated July 9, 2020, funds in the amount of AZN 20,000 thousand in accordance with “Rules for issuing state guarantees and subsidizing interest rates on bank loans to be issued to businesses operating in areas affected by the coronavirus (COVID-19) pandemic” and in the amount of AZN 50,000 thousand in accordance with “Rules for subsidizing interest rates on the existing loan portfolio of businesses operating in areas affected by the coronavirus (COVID-19) pandemic” were transferred to the Fund. The Fund provides subsidies for 50 percent of interest to be paid on state-guaranteed loans and 10 percent of interest to be paid on the existing portfolio loans by using funds from the Government.

For the year ended December 31, 2021, the amount of AZN 12,000 thousand was transferred to the Fund in accordance with “Rules for issuing state guarantees and subsidizing interest rates on bank loans to be issued to businesses operating in areas affected by the coronavirus (COVID-19) pandemic”.

For the year ended December 31, 2021, the Fund has paid interest subsidies in the amount of AZN 14,833 thousand and AZN 29,988 thousand for state-guaranteed and existing portfolio loans, respectively.

For the year ended December 31, 2020, the Fund has paid interest subsidies in the amount of AZN 476 thousand and AZN 20,057 thousand for state-guaranteed and existing portfolio loans, respectively.

For the year ended December 31, 2021, subsidies amounting AZN 45 thousand refunded to the Fund according to letter 25/01.

As at December 31, 2021 and 2020, the balance of the liabilities for the subsidies by government amounted to AZN 16,692 thousand and AZN 49,467 thousand, respectively.

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

15. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2021	December 31, 2020
Tax payables	268	36
Deferred income	23	11
Others	3	16
Total other liabilities	**294**	**63**

16. CHARTER CAPITAL

Pursuant to Decree #224 of the President of the Republic of Azerbaijan dated July 31, 2018, the National Fund for Entrepreneurship Support of the Republic of Azerbaijan was liquidated and new public legal entity, the Entrepreneurship Development Fund was established under the Ministry of Economy. As at December 31, 2021 and 2020, authorized charter capital of the Fund constitutes AZN 1,007,307 thousand.

17. OTHER RESERVES

As at December 31, 2021 and 2020, main part of other reserves consisted of the administrative office building with total evaluated value of AZN 6,639 thousand and vehicles with the total net book value of AZN 10,669 which were transferred to the Fund from the balance of the government.

During 2021, 2020 and 2019, funds in the amount of AZN 649 thousand, AZN 1,328 thousand and AZN 552 thousand paid by the Fund to the Ministry of Economy, respectively.

During 2021, the Fund paid subsidies from its own cash in the amount of AZN 10,519 thousand for state-guaranteed and existing portfolio loans.

18. INTEREST INCOME

Interest income comprises:

	Year ended December 31, 2021	Year ended December 31, 2020
Interest income on loans to local banks	7,471	7,895
Interest income on loans to non-bank credit institutions	235	331
Interest income on deposits placed at local banks	3,210	1,190
Interest income on fixed income bonds	741	-
Total interest income	**11,657**	**9,416**

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

19. OTHER OPERATING INCOME

Other operating income comprises:

	Year ended December 31, 2021	Year ended December 31, 2020
Guarantee and commission fee	2,471	681
Others	11	9
Total other operating income	**2,482**	**690**

A significant part of the Fund's other operating income for the years ended December 31, 2021 and 2020 consisted of commission fee and one-time guarantee fee received from credit institutions due to the issuance of state guarantees for loans to businesses operating in areas affected by the COVID-19 pandemic.

20. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2021	Year ended December 31, 2020
Staff costs	4,195	3,984
Professional services	722	21
Depreciation and amortization of property, equipment and intangible assets	537	436
Insurance expense	102	115
Repairs and maintenance	82	103
Bank commissions	71	38
Security expenses	70	78
Office supplies	58	26
Communication expenses	41	29
Business travel and related expenses	36	22
Utility expenses	28	19
Other expenses	144	141
Total operating expenses	**6,086**	**5,012**

21. INCOME TAX EXPENSE

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

As at December 31, 2021 and 2020, the Fund did not recognize any deferred tax asset regarding its net deductible temporary differences. The Fund assumes that it is not probable that future taxable profits will be available against which the deductible temporary differences can be utilized.

For the year ended December 31, 2021, income tax expense amounts to AZN 805 thousand (2020: AZN 221 thousand).

22. FINANCIAL RISK MANAGEMENT

The risk management function within the Fund 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, in order to minimise operational and legal risks.

Each individual within the Fund is accountable for the risk exposures relating to his or her responsibilities. The Fund is exposed to credit, market and operating risks.

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

The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate business units responsible for managing and monitoring the various risks:

Management Board

The Chairman of the Board is responsible for the overall risk management approach, risk tolerance levels and for approving the main principles of risk management.

Internal control policies and procedures

Although the Supervisory Board is ultimately responsible for identifying and controlling risks, the Management Board has responsibility for the development, implementation and maintaining of internal controls in the Fund that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- Proper and comprehensive risk assessment and management;
- Proper management and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- Completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- Reliability of IT systems, data and systems integrity and protection;
- Determination of risk of fraudulent or illegal activities, including misappropriation of assets;
- Compliance with laws and regulations;

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management periodically implements additional controls or modifies existing controls as considered necessary;

The Fund developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the recording, reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Training and professional development.

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity.

Compliance with the laws and regulations of the Fund is supported by periodic reviews undertaken by the Chamber of Accounts of the Republic of Azerbaijan.

Requirements for Fund's risk management and internal control systems are approved by the Supervisory Board of Fund and risk management and internal control systems are corresponding to the volume, nature and complexity of operations.

Risk management policies and procedures

Management of risk is fundamental to the Fund's work and is an essential element of the Fund's operations. The risk management policies aim to identify, analyse and manage the risks faced by the Fund, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervision Board approves risk management strategy, relevant policies and procedures.

Assets-liabilities and risk management strategy adopted by the Fund incorporate policies on risk management, credit, liquidity, currency, operational and other risks through Supervision Board of the Fund.

Both external and internal risk factors are identified and managed throughout the Fund. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the monitoring division monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Monitoring of the projects is an integral part of risk management process of the Fund. According to the guidance determined by the Fund, the correspondent credit institutions are conducting monitoring of each entrepreneur's projects financed through the Fund's resources not less than twice a year and reports are presented to the Fund. The structure and template of the report are determined by the Fund. Then correspondent credit institutions should demand entrepreneurs to repay the principal and interest amounts prior to the maturity if inappropriate use of Fund's resources were identified during the monitoring. The correspondent credit institutions should repay the total principal and interest amounts on the specific defaulted project to the Fund without regard of their obligations of fulfilment within ten banking days.

Monitoring of the entrepreneurs could be conducted independently by the Fund in order to control appropriate use of the Fund's resources by the entrepreneurs. If inappropriate use of Fund's resources were identified during the monitoring, the correspondent credit institutions should repay the principal and interest amounts on the specific defaulted project to the Fund upon the Fund's written request without regard of the entrepreneurs' obligations of fulfilment within ten banking days. The correspondent credit institutions are charged penalties if they delay to repay the amount upon the Fund's request. The Fund takes appropriate legislative measures to redeem its resources if the duration of delay is more than thirty calendar days. If the payment of required resources is delayed for more than thirty calendar days, the Fund takes appropriate legal measures to redeem its resources.

Redeeming of the Fund's resources

If the correspondent credit institutions breach identified terms of monitoring more than three times, then Fund may repeal the main and additional limits established for these correspondent credit institutions or exclude these institutions from the list of correspondent credit institutions.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in interest rate, equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices. The Fund has no significant concentration of market risk.

Credit risk

Credit risk is the risk of financial loss to the Fund if an authorised lending agency fails to meet its contractual obligations. The Fund has policies and procedures for the management of credit exposures through setting up limits for financing loans of borrowing credit institutions. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

An individual ceiling is set by the Supervision Board of the Fund for each authorised lending agency at the beginning of each year based on its aggregate capital and appropriate financial data. After exceeding this limit, the Supervision Board of the Fund, based on repaid loans, as well as other inflows, can set additional limit for financing investment projects of entrepreneurship entities against requests of the authorized lending agencies.

The total value of the balance of assets mobilized from the Fund can be up to 100% of aggregate capital of authorized banks and 100% of charter capital of non-banking credit organizations.

Corresponding loan applications reflecting financial information on credit institutions are prepared by the business sector dealing with entrepreneurs and authorised credit institutions of the Entrepreneurship development division, and are passed on to the Supervisory Board of the Fund for approval of the credit limits for authorised credit institutions. In order to monitor credit risk exposures, regular reports are produced by the monitoring division's officer based on a structured analysis focusing on the customer's business and financial performance. Any significant exposure to customers with deteriorating creditworthiness are reported to and reviewed by the Supervision Board. The Fund does not use formalised internal credit ratings to monitor exposure to credit risk. Management monitors and follows up on past due balances. The Central Bank of the Republic of Azerbaijan regularly provides the Fund with information on financial-statistic indicators of authorized lending agencies as of certain date. This information is represented by letter, which includes list of financial institutions and their main financial performance indicators such as total assets, liabilities, total capital, loan portfolio, capital adequacy ratio, profit or loss.

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

The Fund's monitoring division reviews the ageing analysis of outstanding loans and follows up on past due balances. Therefore, Management considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 22.

Apart from individual customer analysis, the credit portfolio is assessed by the Finance and Supply Division with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	December 31, 2021	December 31, 2020
Cash and cash equivalents	40,036	95,453
Deposits at banks	59,525	30,083
Investment securities	19,008	-
Loans to credit institutions	716,396	735,813
Total on-balance sheet exposure	**834,965**	**861,349**

Credit risks concentration

The Fund is exposed to concentrations of credit risk. As at December 31, 2021 the Fund had 2 counterparties with aggregated loan balance above AZN 100,000 thousand (2020: 2 counterparties). The total aggregate amount of these balances was AZN 346,193 thousand (2020: AZN 392,359 thousand) or 35% of the total loans to credit institutions (2020: 53%).

As at December 31, 2021, the credit quality of financial assets may be summarised based on rating assigned by Standard&Poors as follows:

Financial statement category	BB+	B	B-	Not rated	Total
Cash and cash equivalents	14,719	25,317	-	-	40,036
Deposits at banks	-	15,638	-	43,887	59,525
Investment securities	19,008	-	-	-	19,008
Loans to credit institutions	-	403,076	22,207	291,113	716,396
Total	**33,727**	**444,031**	**22,207**	**335,000**	**834,965**

As at December 31, 2020, the credit quality of financial assets may be summarised based on rating assigned by Standard&Poors as follows:

Financial statement category	BB+	B+	B	B-	Not rated	Total
Cash and cash equivalents	279	95,174	-	-	-	95,453
Deposits at banks	-	30,083	-		-	30,083
Loans to credit institutions	-	255,067	195,234	8,380	277,132	735,813
Total	**279**	**380,324**	**195,234**	**8,380**	**277,132**	**861,349**

Expected credit loss (ECL) measurement

Expected credit loss (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 adjusting risk of default to the expectations on development of macroeconomic situation in future. ECL measurement is based on four components used by the Fund: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period.

PD *is* an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's *lifetime period.* The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any.

Discount Rate is a tool to discount an expected loss to the present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

Forward-looking information is the information that includes the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio segment. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. 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, or remaining *lifetime period* of the financial instrument if it is less than a year.

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

- The borrower is more than 90 days past due on its contractual payments;
- The credit rating of a financial asset is downgraded to "D" (C) by leading international rating agencies
- Licence of the borrower to operate in banking industry is revoked;
- The Fund considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:
- Actual or expected significant adverse change in operating results of the authorised lending agency;

- When financial assets are downgraded by the leading international credit rating agencies of the long-term credit rating by 5 grades since initial recognition.

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

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures.

The level of ECL that is recognized 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 recognize 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 Fund monitors whether that indicator continues to exist or has changed.

The key principles of calculating the credit risk parameters

The EADs are determined based on the expected payment profile including contractual principal plus interest. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument.

The Fund has direct exposure towards credit institutions which finance loans to the entrepreneurs. Therefore, risk of default is combination of risk of default of given credit institutions and underlying portfolio financed by the Fund. Credit institutions are divided into two categories for ECL purposes:

- Banks;
- Non-Bank Credit Organizations (NBCO) and credit unions.

LGD represents the Fund's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The value of LGD has been benchmarked using estimates provided by World Bank, directly for country of Azerbaijan.

Forward-looking information incorporated in the ECL models

PD and LGD estimations for loans are based on history from last 36 months so the most recent economic environment is already reflected in the estimation process. In case of measuring PD and LGD figures, information from external rating agencies is used where macroeconomic factors are already incorporated within.

Backtesting

The Fund regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed at least once a year. The results of backtesting are communicated to the Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Currency risk

Currency risk results from the currency rates fluctuation. Due to the reason that all operations of the Fund are carried out in national currency, the Fund is not directly subject to the currency risk.

Interest rate risk

The Fund takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Fund is not significantly exposed to interest rate risk as the Fund does not have floating rate non-trading financial assets and financial liabilities held as of December 31, 2021 and 2020.

Operational risk

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

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund is not exposed to liquidity risk, as it does not have significant financial liabilities as at December 31, 2021 and 2020.

(Amounts are expressed in thousands of Azerbaijani Manats, unless otherwise indicated)

The following tables provide an analysis, by expected maturities, of amounts recognised in the statement of financial position:

	Demand and less than 1 month	**From 1 to 6 month**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
December 31, 2021						
Cash and cash equivalents	40,036	-	-	-	-	40,036
Deposits at banks	5,126	42,117	6,999	5,283	-	59,525
Investment securities	-	9,008	-	10,000	-	19,008
Loans to credit institutions	20,182	5,554	18,028	402,505	270,127	716,396
Government subsidies to customers	(2,603)	(11,694)	(2,395)	-	-	(16,692)
Net position based on expected maturities	**62,741**	**44,985**	**22,632**	**417,788**	**270,127**	**818,273**

	Demand and less than 1 month	**From 1 to 6 month**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
December 31, 2020						
Cash and cash equivalents	95,453	-	-	-	-	95,453
Deposits at banks	83	30,000	-	-	-	30,083
Loans to credit institutions	2,553	2,775	10,891	373,282	346,312	735,813
Government subsidies to customers	(5,870)	(18,273)	(25,324)	-	-	(49,467)
Net position based on expected maturities	**92,219**	**14,502**	**(14,433)**	**373,282**	**346,312**	**811,882**

23. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Legal proceedings

From time to time and in the normal course of business, claims against the Fund are received. On the basis of its own estimates and both internal and external professional advice, the Management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements.

Tax legislation

Tax, currency and customs legislation of the Republic of Azerbaijan is subject to varying interpretations, and changes, which can occur frequently. The Management's interpretation of such legislation as applied to the transactions and activities of the Fund may be challenged by the relevant authorities.

Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. The Management believes that its interpretation of the relevant legislation is appropriate and the Fund's tax, currency legislation and customs positions will be sustained.

Capital expenditure commitments

As at December 31, 2021 and 2020, the Fund had no significant contractual capital expenditure commitments.

24. FAIR VALUE DISCLOSURES

Fair value measurements are analysed by level in the fair value hierarchy as follows: (I) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (II) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (III) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy.

If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

As at December 31, 2021 and 2020, there are no financial instruments measured at fair value recognized in the statement of financial position.

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

For assets and liabilities maturing within three months, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For all others the fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates for new instruments with similar credit risk and remaining maturity.

Management consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values and categorised in the Level 2 fair value hierarchy.

25. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently.

As at December 31, 2021 and 2020, all of the Fund's financial assets and liabilities were carried at amortized cost.