Embafinans NBCO LLC

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

31 December 2017

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Independent Auditor's Report

To the Shareholders and Board of Directors of Embafinans NBCO LLC:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Embafinans NBCO LLC (the "Company") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

PricewaterhouseCoopers Audit Azerbaijan LLC

May 31, 2018

Baku, the Republic of Azerbaijan

In Azerbaijani Manats	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	7	170,848	100,646
Loans to customers	8	15,516,813	15,102,199
Property, equipment and intangible assets	9	5,622,550	5,975,263
Deferred income tax assets	18	151,083	179,010
Other assets	10	576,816	601,961
TOTAL ASSETS		**22,038,110**	**21,959,079**
LIABILITIES			
Loans from banks	11	7,310,733	8,215,342
Payables to partners	12	107,697	238,541
Current income tax liabilities		43,107	207,014
Other liabilities	14	1,730,117	420,726
TOTAL LIABILITIES		**9,191,654**	**9,081,623**
EQUITY			
Charter capital	13	10,000,000	10,000,000
Retained earnings		2,846,456	2,877,456
TOTAL EQUITY		**12,846,456**	**12,877,456**
TOTAL LIABILITIES AND EQUITY		**22,038,110**	**21,959,079**

Approved for issue and signed on behalf of the Management on 31 May 2018.

Mr. Samir Isgandarov
Chairman of the Board of Directors

Mr. Elnur Kazimov
Chief Financial Officer

The notes set out on pages 5 to 28 form an integral part of these financial statements.

In Azerbaijani Manats	Note	2017	2016
Interest income	15	4,380,527	4,692,960
Interest expense	15	(1,180,847)	(936,224)
Net interest income		**3,199,680**	**3,756,736**
Recovery of loan impairment	8	88,814	135,685
Net interest income after recovery of loan impairment		**3,288,494**	**3,892,421**
Fee and commission income	16	742,757	571,921
Fee and commission expense	16	(179,413)	(192,019)
Losses on initial recognition of assets at rates below market		(71,818)	(38,544)
Foreign exchange translation gains less losses		(800)	(2,767)
Net operating income		**3,779,220**	**4,231,012**
Administrative and other operating expenses	17	(3,072,362)	(2,898,859)
Profit before income tax		**706,858**	**1,332,153**
Income tax expense	18	(137,858)	(254,701)
Profit for the year		**569,000**	**1,077,452**
Total comprehensive income for the year		**569,000**	**1,077,452**

The notes set out on pages 5 to 28 form an integral part of these financial statements.

In Azerbaijani Manats	Charter capital	Retained earnings	Total equity
Balance as at 1 January 2016	**10,000,000**	**1,800,004**	**11,800,004**
Profit for the year	-	1,077,452	1,077,452
Total comprehensive income for 2016	-	1,077,452	1,077,452
Balance as at 31 December 2016	**10,000,000**	**2,877,456**	**12,877,456**
Profit for the year	-	569,000	569,000
Total comprehensive income for 2017	-	569,000	569,000
Dividends paid	-	(600,000)	(600,000)
Balance as at 31 December 2017	**10,000,000**	**2,846,456**	**12,846,456**

In Azerbaijani Manats	Note	2017	2016
Cash flows from operating activities			
Interest received		3,459,392	3,637,550
Interest paid		(1,194,561)	(915,784)
Fees and commissions received		90,053	82,775
Fees and commissions paid		(179,413)	(192,019)
Operating expenses paid		(2,719,611)	(2,416,324)
Income tax paid		(180,000)	(20,000)
Cash flows (used in)/from operating activities before changes		**(724,140)**	**176,198**
Net (increase)/decrease in:			
- loans to customers		(513,644)	1,386,847
- other assets		49,660	343,666
Net decrease/(increase) in:			
- other liabilities		2,334,824	311,927
- payables to partners		446,846	(2,398,236)
Net cash from/(used) in operating activities		**1,593,546**	**(179,598)**
Cash flows from investing activities			
Acquisition of properties and equipment and intangible assets		(21,608)	(525,940)
Net cash used in investing activities		**(21,608)**	**(525,940)**
Cash flows from financing activities			
Proceeds from loans from banks		3,831,000	5,300,000
Repayment of loans from banks		(4,731,936)	(4,609,914)
Dividends paid		(600,000)	-
Net cash (used)/from financing activities		**(1,500,936)**	**690,086**
Effect of exchange rate changes on cash and cash equivalents		(800)	(2,768)
Net increase/(decrease) in cash and cash equivalents		**70,202**	**(18,220)**
Cash and cash equivalents at the beginning of the year		100,646	118,866
Cash and cash equivalents at the end of the year		**170,848**	**100,646**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for Embafinans NBCO LLC ("the Company").

The Company was incorporated and is domiciled in the Republic of Azerbaijan.

As at December 31, 2017 and 2016, the following shareholders owned the issued charter capital of the Company:

Shareholder	31 December 2017	31 December 2016
Mr. Elshad Abbasov Inshalla	60%	60%
Mr. Mashur Mammadov Shahbaz	40%	40%
Total	**100%**	**100%**

As at 31 December 2017 and 2016 the Company is ultimately controlled by Mr. Elshad Abbasov.

Principal activity. Embafinans Limited Liability Company (the "Company") is a Non-Bank Credit Organization, which was incorporated in the Republic of Azerbaijan in 2012. The Company operates under a special license number BKT-10 issued by the Central Bank of the Republic of Azerbaijan ("CBAR") and is regulated by the Financial Markets Supervision Chamber ("FMSC"). The Company mainly lends to individuals to purchase furniture and other home appliances from its related party, Embawood LLC. As at 31 December 2017 such loans represented 87% of total loans to customers (December 31, 2016: 95%). Under this license the Company does not have the right to obtain cash deposits and collateral in form of cash deposits.

Registered address and place of business. The Company's registered address and place of business is:

15 B.Bagirova Street, AZ 1065

Baku, the Republic of Azerbaijan

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

2 Operating Environment of the Company

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

Following the negative impact of decline in oil prices and devaluations of national currency against major international currencies, which took place in 2015, operating environment remained highly uncertain.

In addressing these challenges, the government accelerated reforms in support of long term economic stability and sustainability. Furthermore, during 2017 the government continued tight monetary policy as well as allocated foreign currency resources which stabilized Azerbaijan manat.

In January 2018, Standard & Poor's, international credit rating agency, maintained Azerbaijan's sovereign credit rating at 'BB+', revising its outlook from negative to stable. At the same time, the agency affirmed the ratings on the long term foreign and local currency sovereign credit ratings of Azerbaijan at 'BB+/B'. The agency forecasts that Azerbaijan's economic growth will recover moderately but will still remain dependent on oil industry trends and public investments.

The Company's Management is monitoring these developments in the current environment and taking precautionary measures as it considers necessary in order to ensure the sustainability and development of the Company's business in the foreseeable future. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

3 Significant Accounting Policies

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

Financial instruments - key measurement terms. Depending on their classification, financial instruments are carried at fair value, or amortised 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 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 quantity 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.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Company: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities are substantially the same.

Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 23.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

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 write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to 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 related items in the statement of financial position.

3 Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

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

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus 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.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company 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.

Cash and cash equivalents. Cash and cash equivalents are 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 include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Loans to customers. Loans to customers are recorded when the Company advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans to customers are carried at amortised cost.

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Company considers in assessing whether a financial asset is impaired, is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Company obtains;

3 Significant Accounting Policies (Continued)

- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are assessed on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Properties and equipment. Properties are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of properties and equipment items are capitalised and the replaced part is retired.

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

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

Depreciation. Depreciation of properties and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

	Useful lives in years
Premises	25 years
Computer an equipment	5 years
Vehicles	5 years

3 Significant Accounting Policies (Continued)

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

Intangible assets. All of the Company's intangible assets have definite useful lives and primarily include capitalised computer software.

Acquired computer software licences are capitalised based on the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 to 10 years.

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognized as rental income on a straight-line basis over the lease term.

Loans from banks. Loans from banks include loans from resident and non-resident banks and other financial institutions with fixed maturities and fixed or floating interest rates. Loans from banks are subsequently carried at amortised cost.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Azerbaijani legislation enacted or substantively enacted by the period end date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement, except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available, against which the deductions can be utilised.

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

Uncertain tax positions. The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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

3 Significant Accounting Policies (Continued)

Fees integral to the effective interest rate include origination fees received or paid by the Company relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Company to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Company will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Company does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

Monetary assets and liabilities are translated into Company's functional currency at the official exchange rate of the CBAR at the respective period end dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into Company's functional currency at year-end official exchange rates of the CBAR are recognised in profit or loss for the year (as foreign exchange translation gains less losses).Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2017, the rate of exchange used for translating foreign currency balances denominated in United States dollars ("USD") was USD 1 = AZN 1.7001 (2016: USD 1 = AZN 1.7707). The average rate of exchange used for translating income and expenses for the year denominated in USD was USD 1 = AZN 1.7201 (2016: USD 1 = AZN 1.5973).

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. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

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 Company. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Company 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:

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Impairment losses on loans and advances. The Company regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a company, or national or local economic conditions that correlate with defaults on assets in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

Valuation of financial instruments. As described in Note 23, the Company uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. The Company management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Company from 1 January 2017, but did not have any material impact on the Company:

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Company has not early adopted.

IFRS 9 "Financial Instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

6 New Accounting Pronouncements (Continued)

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

In 2018, management considers to engage an internationally recognised firm to assist the Company in implementing IFRS 9, including implementation relevant systems, processes and controls in place. In June 2018, the Company expects to finalise its analysis of the Company's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that existed at that date to assess the likely impact on its financial statements from the adoption of the new standard on 1 January 2018.

The new standard is expected to impact measurement of financial assets, including an increase in loan loss provision, and financial liabilities and also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. Management does not expect significant impact from the update of standard to the Company's financial statements.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The following other new pronouncements are not expected to have any material impact on the Company when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

6 New Accounting Pronouncements (Continued)

- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

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

7 Cash and Cash Equivalents

In Azerbaijani Manats	31 December 2017	31 December 2016
Cash on hand	11,937	11,454
Bank balances payable on demand	158,911	89,192
Total cash and cash equivalents	**170,848**	**100,646**

All cash and cash equivalents of the Company excluding cash on hand are at resident banks as at 31 December 2016 and 2017.

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2017:

In Azerbaijani Manats	31 December 2017
Neither past due nor impaired	
BB-	136,550
B+	16,692
CCC+	169
Unrated	5,500
Total cash and cash equivalents, excluding cash on hand	**158,911**

The credit quality of cash and cash equivalents balances at 31 December 2016 is as follows:

In Azerbaijani Manats	31 December 2016
Neither past due nor impaired	
BB+	46,347
BB-	42,775
B+	70
Total cash and cash equivalents, excluding cash on hand	**89,192**

The published international rating (by Standard & Poor's) of Azerbaijan Republic is BB+ at 31 December 2017 (2016: BB+).

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 20.

8 Loans to Customers

In Azerbaijani Manats	31 December 2017	31 December 2016
Consumer Loans	15,861,714	15,722,346
Corporate Loans	509,179	330,000
Less: Provision for loan impairment	(854,080)	(950,147)
Total loans to customers	**15,516,813**	**15,102,199**

Movements in the provision for loan impairment during 2017 are as follows:

In Azerbaijani Manats	Consumer Loans	Corporate Loans	Total
Provision for loan impairment at 1 January 2017	**950,147**	-	**950,147**
Recovery of impairment during the year	(88,814)	-	**(88,814)**
Written-off loans	(7,253)	-	**(7,253)**
Provision for loan impairment at 31 December 2017	**854,080**	-	**854,080**

Movements in the provision for loan impairment during 2016 are as follows:

In Azerbaijani Manats	Consumer Loans	Corporate Loans	Total
Provision for loan impairment at 1 January 2016	**1,111,638**	-	**1,111,638**
Recovery of impairment during the year	(135,685)	-	(135,685)
Written-off loans	(25,806)	-	(25,806)
Provision for loan impairment at 31 December 2016	**950,147**	-	**950,147**

Information about collateral at 31 December 2017 is as follows:

In Azerbaijani Manats	Consumer Loans	Corporate Loans	Total
Unsecured loans	**44,219**	**150,000**	**194,219**
Loans collateralised by:			
- movable property	14,798,209	-	14,798,209
- guarantee	165,206	233,389	398,595
- non-residential real estate	-	125,790	125,790
Total loans to customers	**15,007,634**	**509,179**	**15,516,813**

Information about collateral at 31 December 2016 is as follows:

In Azerbaijani Manats	Consumer Loans	Corporate Loans	Total
Unsecured loans	**53,145**	-	**53,145**
Loans collateralised by:			
- Movable property	14,520,046	-	14,520,046
- Guarantee	199,008	330,000	529,008
Total loans to customers	**14,772,199**	**330,000**	**15,102,199**

8 Loans to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2017 is as follows:

In Azerbaijani Manats	Consumer Loans	Corporate Loans	Total
Neither past due nor impaired			
Loans to individuals	14,694,320	-	14,694,320
Loans to medium size entities	-	509,179	509,179
Total neither past due nor impaired	**14,694,320**	**509,179**	**15,203,499**
Past due but not impaired			
less than 30 days overdue	266,590	-	266,590
Total past due but not impaired	**266,590**	**-**	**266,590**
Loans individually determined to be impaired			
30 to 90 days overdue	20,009	-	20,009
91 to 180 days overdue	16,580	-	16,580
181 to 360 days overdue	38,545	-	38,545
over 360 days overdue	825,670	-	825,670
Total loans individually determined to be impaired	**900,804**	**-**	**900,804**
Less impairment provisions	**(854,080)**	**-**	**(854,080)**
Total loans to customers	**15,007,634**	**509,179**	**15,516,813**

Analysis by credit quality of loans outstanding at 31 December 2016 is as follows:

In Azerbaijani Manats	Consumer Loans	Corporate Loans	Total
Neither past due nor impaired			
Loans to individuals	14,304,794	-	14,304,794
Loans to medium size entities	-	330,000	330,000
Total neither past due nor impaired	**14,304,794**	**330,000**	**14,634,794**
Past due but not impaired			
less than 30 days overdue	323,871	-	323,871
30 to 90 days overdue	768	-	768
Total past due but not impaired	**324,639**	**-**	**324,639**
Loans individually determined to be impaired			
30 to 90 days overdue	34,715	-	34,715
91 to 180 days overdue	42,809	-	42,809
181 to 360 days overdue	168,240	-	168,240
over 360 days overdue	847,149	-	847,149
Total loans individually determined to be impaired	**1,092,913**	**-**	**1,092,913**
Less impairment provisions	**(950,147)**	**-**	**(950,147)**
Total loans to customers	**14,772,199**	**330,000**	**15,102,199**

8 Loans to Customers (Continued)

The Company applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Company's policy is to classify each loan as 'neither past due nor impaired' until a specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology. Provision for loan impairment includes both collective and individual loan provisions.

The primary factors that the Company considers whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Company presents above an ageing analysis of loans that are individually determined to be impaired.

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2017:

	Over-collateralised assets		**Under-collateralised assets**	
In Azerbaijani Manats	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Consumer Loans	1,220,528	2,090,858	13,787,107	7,692,072
Corporate Loans	125,790	550,000	383,389	66,000

The effect of collateral at 31 December 2016:

	Over-collateralised assets		**Under-collateralised assets**	
In Azerbaijani Manats	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Consumer Loans	13,495,558	27,380,779	1,276,641	1,053,182
Corporate Loans	-	-	330,000	-

Refer to Note 23 for the estimated fair value of each class of loans to customers. Interest rate analysis of loans to customers is disclosed in Note 20. Information on related party balances is disclosed in Note 25.

9 Properties, Equipment and Intangible Assets

In Azerbaijani Manats	Premises	Computer and equipmen	Vehicles	Intangible assets	Total
Cost at 1 January 2016	6,500,000	34,699	33,920	3,225	6,571,844
Accumulated depreciation/amortization	(749,024)	(12,800)	(23,544)	(841)	(786,209)
Carrying amount at 1 January 2016	**5,750,976**	**21,899**	**10,376**	**2,384**	**5,785,635**
Additions	-	500,237	-	25,703	525,940
Disposals	-	(2,337)	-	-	(2,337)
Depreciation/amortization charge	(260,712)	(66,056)	(5,615)	(1,786)	(334,169)
Depreciation charge of disposals	-	194	-	-	194
Carrying amount at 31 December 2016	**5,490,264**	**453,937**	**4,761**	**26,301**	**5,975,263**
Cost at 1 January 2017	6,500,000	532,599	33,920	28,928	7,095,447
Accumulated depreciation/amortization	(1,009,736)	(78,662)	(29,159)	(2,627)	(1,120,184)
Carrying amount at 1 January 2017	**5,490,264**	**453,937**	**4,761**	**26,301**	**5,975,263**
Additions	-	21,574	-	2,504	24,078
Depreciation/amortization charge	(260,000)	(108,208)	(5,585)	(2,998)	(376,791)
Carrying amount at 31 December	**5,230,264**	**367,303**	**(824)**	**25,807**	**5,622,550**
Cost at 31 December 2017	6,500,000	554,173	33,920	31,432	7,119,525
Accumulated depreciation/amortization	(1,269,736)	(186,870)	(34,744)	(5,625)	(1,496,975)
Carrying amount at 31 December 2017	**5,230,264**	**367,303**	**(824)**	**25,807**	**5,622,550**

Intangible assets at 31 December 2017 and 2016 represent software license and modules used for the purposes of performing banking business.

10 Other Assets

In Azerbaijani Manats	31 December 2017	31 December 2016
Receivables from payment providers	485,865	454,073
Other	29,657	110,634
Total financial assets	**515,522**	**564,707**
Deferred expense	61,294	37,254
Total other assets	**576,816**	**601,961**

Receivables from payment providers consist of cash in transit receivable from agencies providing the service of processing customers' repayments.

11 Loans from Banks

In Azerbaijani Manats	Maturity	Nominal interest rate %	31 December 2017	31 December 2016
Pasha Bank OJSC	November 20, 2017	19%	-	1,195,800
Pasha Bank OJSC	May 22, 2018	12%	516,868	1,519,500
Pasha Bank OJSC	September 13, 2018	12%	1,001,466	2,012,000
Pasha Bank OJSC	September 16, 2019	19%	1,576,657	-
Kapital Bank ASC	December 27, 2019	19%	2,536,435	3,488,042
Kapital Bank ASC	June 30, 2018	19%	1,123,146	-
Kapital Bank ASC	December 15, 2019	19%	556,161	-
Total loan from banks			**7,310,733**	**8,215,342**

11 Loans from Banks (Continued)

The above balances include principal amounts and accrued interest payables as at 31 December 2017 and 2016. Accrued interest payable as at 31 December 2017 was AZN 39,858 (2016: AZN 44,008).

Interest rates for the borrowings represent market rates for the years ended 31 December 2017 and 2016. The carrying value of the term borrowings approximates fair value at 31 December 2017 and 31 December 2016.

Company's loan agreement with Kapital Bank OJSC of 27 December 2017 refers to covenant clauses, whereby the Company is required to achieve average sales during the three months period before date monitoring of more than AZN 1,400 thousand. The Company's average sales during the first three months before monitoring in 2017 was AZN 1,290 thousand. Management believes that in the current market environment the focus should be on the quality of loan portfolio and to retain/increase the level of collections by prudent approach to lending decisions.

Although Kapital Bank OJSC is contractually entitled to request double repayment of monthly principal amount over the next three months, Kapital Bank OJSC was supportive of the efforts of management to ensure healthy portfolio and collections. Moreover, Kapital Bank did not face any breaches or violations during the next monitoring in 2017. The bank did not request repayment of the loan as of the date of approval by the Board of Directors of these financial statements. Management believes that as of the date of issue of the financial statements, the Company had not experienced any adverse consequences of the breaches of this covenants.

Geographical, currency, maturity and interest rate analyses of term borrowings are disclosed in Note 20.

12 Payables to Partners

In Azerbaijani Manats	**31 December 2017**	**31 December 2016**
Payables to "Embawood" LLC	34,497	158,456
Payables to other partners	73,200	80,085
Total payables to partners	**107,697**	**238,541**

13 Charter Capital

As at December 31, 2017 and 2016 share capital authorized consisted of 20,000 ordinary shares with par value of AZN 500 each. There were no issued and outstanding shares as at December 31, 2017 and 2016.

14 Other Liabilities

In Azerbaijani Manats	**2017**	**2016**
Payable to the employees	124,667	126,784
Other	23,493	34,646
Total financial other liabilities	148,160	161,430
Deferred interest income	1,527,542	88,083
Taxes payable, other than income tax	14,562	105,896
Other	39,853	65,317
Total other liabilities	**1,730,117**	**420,726**

15 Interest Income and Expense

In Azerbaijani Manats	2017	2016
Interest income		
Loans to customers	4,380,527	4,692,960
Total interest income	**4,380,527**	**4,692,960**
Interest expense		
Loans from banks	1,180,847	877,832
Other	-	58,392
Total interest expense	**1,180,847**	**936,224**
Net interest income	**3,199,680**	**3,756,736**

Interest income on impaired financial assets was AZN 184,212 (2016: AZN 163,519).

16 Fee and Commission Income and Expense

In Azerbaijani Manats	2017	2016
Fee and commission income		
Fee and commission income not relating to financial instruments at fair value through profit or loss:		
- Fee and commission income from credit granting services	582,451	473,017
- Other	160,306	98,904
Total fee and commission income	**742,757**	**571,921**

In Azerbaijani Manats	2017	2016
Fee and commission expense		
Fee and commission expense not relating to financial instruments at fair value through profit or loss		
- Pay point operations	140,924	154,269
- Other	38,489	37,750
Total fee and commission expense	**179,413**	**192,019**
Net fee and commission income	**563,344**	**379,902**

17 Administrative and Other Operating Expenses

In Azerbaijani Manats	2017	2016
Staff costs	2,122,041	1,937,729
Depreciation and amortization	376,791	333,282
Repair and maintenance	104,449	133,970
Agency costs	178,105	195,582
Taxes other than on income	66,244	78,409
Rent expenses	24,000	24,000
Professional services	46,840	11,909
Communication expenses	48,190	60,716
Other expenses	105,702	123,262
Total administrative and other operating expenses	**3,072,362**	**2,898,859**

Included in staff costs are social security contributions in the amount of AZN 382,938 (2016: AZN 349,426).

18 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense comprises the following:

In Azerbaijani Manats	2017	2016
Current tax	109,931	206,910
Deferred tax	27,927	47,791
Income tax expense for the year	**137,858**	**254,701**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Company's income is 2017 and 2016 income is 20%. A reconciliation between the expected and the actual taxation charge is provided below.

In Azerbaijani Manats	2017	2016
Profit before tax	**706,858**	**1,332,153**
Theoretical tax charge at statutory rate of 20%	141,372	266,431
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Other	(6,384)	(16,993)
- Non-deductible expenses	2,870	5,263
Income tax expense for the year	**137,858**	**254,701**

(c) Deferred taxes analysed by type of temporary difference

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

The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2016: 20%).

In Azerbaijani Manats	1 January 2017	Credited to profit or loss	31 December 2017
Tax effect of deductible temporary differences			
Loans to customers	237,927	(47,217)	190,710
Property, equipment and intangible assets	(66,441)	(17,191)	(83,632)
Other liabilities	7,524	36,481	44,005
Net deferred tax asset	**179,010**	**27,927**	**151,083**

The tax effect of the movements in the temporary differences for the year ended 31 December 2016 are:

In Azerbaijani Manats	1 January 2016	Credited to profit or loss	31 December 2016
Tax effect of deductible temporary differences			
Loans to customers	277,279	(39,352)	237,927
Property, equipment and intangible assets	(31,144)	(35,297)	(66,441)
Other liabilities	(19,334)	26,858	7,524
Net deferred tax asset	**226,801**	**(47,791)**	**179,010**

19 Dividends

In Azerbaijani Manats	2017 Ordinary
Dividends payable at 1 January 2017	-
Dividends declared during the year	600,000
Dividends paid during the year	(600,000)
Dividends payable at 31 December 2017	-

No dividends were declared and paid during 2016. All dividends are declared and paid in Azerbaijani Manats.

20 Financial Risk Management

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

Credit risk. The Company takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's lending and other transactions with counterparties giving rise to financial assets.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, workplace, credit history, net monthly income. Based on obtained information, customer's application either approved or rejected.

The principal credit risk management methods used is described in the formal Credit Policy adopted and implemented by the Company. These include the setting of limits and the diversification of the credit portfolio based upon defined criterion (such as industry, duration, related persons, region, etc.). Credits will also be classified at initiation and throughout the life of the loan based upon a risk level determined using best practice rating and scoring systems. Such tools will also be used to establish appropriate provisions for potential losses as necessary. All restrictions and norms issued by the Financial Markets Supervision Chamber ("FMSC"), related to lending operations, have also been carefully considered and embedded into the Company's credit policy.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower and to geographical and industry segments.

Company's credit department reviews the ageing analysis of outstanding loans and follows up on past due balances on monthly basis. Management, therefore, considers it appropriate to provide ageing and other information about credit risk.

Market risk. Market risk is the risk that the Company's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit spreads, commodity prices and equity prices, that the Company is exposed to. There have been no changes as to the way the Company measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

The Company is closely related to the market position and sales of Embawood LLC. Major part of loan portfolio consists of the loans from the sale of furniture and fixture of Embawood LLC. The Company takes on exposure to effects of operations of Embawood LLC. In order to manage this risk, management regularly assess the financial statements of Embawood LLC and consider size and position of branches in the market. Moreover, the Company focuses on diversification of loan portfolio as a primary imperative. In 2017, the Company started to diversify its loan portfolio concluding new agreements with different partners.

20 Financial Risk Management (Continued)

Currency risk. The Company takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Company does not deal in any derivative instruments for speculative or hedging purposes. Such instruments are not commonly used in Azerbaijan.

The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2017			At 31 December 2016		
In Azerbaijani Manats	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
AZN	16,201,865	(7,566,590)	8,635,275	15,766,512	(8,791,479)	6,975,033
USD	628	-	628	577	-	577
EUR	690	-	690	463	-	463
Total	**16,203,183**	**(7,566,590)**	**8,636,593**	**15,767,552**	**(8,791,479)**	**6,976,073**

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

	At 31 December 2017	At 31 December 2016
In Azerbaijani Manats	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 20% (2016: strengthening by 20%)	126	115
US Dollar weakening by 20% (2016: weakening by 20%)	(126)	(115)
EUR strengthening by 20% (2016: strengthening by 20%)	138	93
EUR weakening by 20% (2016: weakening by 20%)	(138)	(93)
Total	-	-

Other than as a result of any impact on the Company's profit or loss, there is no other impact on the Company's equity as a result of such change in exchange rates. The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Company.

The Company makes the following assumptions when carrying out its sensitivity analysis:

- The sensitivity analysis shows the effects of changes that are considered to be reasonably possible over the period until the Company will next present these disclosures, which is usually its next annual reporting period;
- The Company discloses only the effects of the changes at the limits of the reasonably possible range of the relevant risk variable, rather than all reasonably possible changes.

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The Management monitors on a daily basis and set limits on the level of mismatch of interest rate re-pricing that may be undertaken.

20 Financial Risk Management (Continued)

The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

In Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 1 year	From 1 year to 5 years	Non-interest bearing	Total
31 December 2017						
Total financial assets	2,077,756	3,766,382	9,077,689	594,986	686,370	16,203,183
Total financial liabilities	(557,194)	(1,133,067)	(3,176,686)	(2,443,786)	(255,857)	(7,566,590)
Net interest sensitivity gap at 31 December 2017	**1,520,562**	**2,633,315**	**5,901,003**	**(1,848,800)**	**430,513**	**8,636,593**
31 December 2016						
Total financial assets	1,777,531	3,130,451	8,436,695	1,757,522	665,353	15,767,552
Total financial liabilities	(356,396)	(695,437)	(3,242,054)	(3,921,455)	(399,971)	(8,615,313)
Net interest sensitivity gap at 31 December 2016	**1,421,135**	**2,435,014**	**5,194,641**	**(2,163,933)**	**265,382**	**7,152,239**

The Company monitors interest rates for its financial instruments. The table below summarizes interest rates based on reports reviewed by key management personnel:

In % p.a.	2017 AZN	2016 AZN
Assets		
Loans to customers	32-34%	29-32%
Liabilities		
Loans from banks	12-19%	12-19%
Payable to partners		-

All other financial assets and financial liabilities are non-interest bearing.

Geographical risk concentrations. The Company conducts lending activities only within territory of Azerbaijan Republic as at December 31, 2017 and 2016, the Company's all financial assets and liabilities are subject to 100% concentration to the Republic of Azerbaijan, which represents a significant geographical concentration in one region.

Liquidity risk. Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations arising from its financial liabilities. It refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

20 Financial Risk Management (Continued)

In order to manage liquidity risk, the Company performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. They also set parameters for the risk diversification of the liability base.

The Company's liquidity policy is comprised of the following:

- Projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;
- Maintaining a funding plan commensurate with the Company's strategic goals;
- Maintaining a diverse range of funding sources thereby increasing the Company's borrowing capacity, domestically as well as from foreign sources;
- Maintaining highly liquid and high-quality assets;
- Adjusting its product base by time bands against available funding sources; and
- Constant monitoring of asset and liability structures by time-bands.

The table below shows liabilities at 31 December 2017 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

The undiscounted maturity analysis of financial instruments at 31 December 2017 is as follows:

In Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 1 year**	**From 1 year to 5 years**	**Total**
Assets					
Cash and cash equivalents	170,848	-	-	-	170,848
Loans to customers	2,188,566	3,771,594	9,781,685	649,968	16,391,813
Other financial assets	515,522	-	-	-	515,522
Total	**2,874,936**	**3,771,594**	**9,781,685**	**649,968**	**17,078,183**
Liabilities					
Loans from banks	(666,329)	(1,324,115)	(3,709,560)	(2,683,858)	(8,383,862)
Payables to partners	(107,697)	-	-	-	(107,697)
Other financial liabilities	(148,160)	-	-	-	(148,160)
Total potential future payments for financial obligations	**(922,186)**	**(1,324,115)**	**(3,709,560)**	**(2,683,858)**	**(8,639,719)**
Liquidity gap arising from financial instruments	**1,952,750**	**2,447,479**	**6,072,125**	**(2,033,890)**	**8,438,464**

20 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial instruments at 31 December 2016 is as follows:

In Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 1 year	From 1 year to 5 years	Total
Assets					
Cash and cash equivalents	100,646	-	-	-	100,646
Loans to customers	2,053,306	3,394,287	9,993,792	1,963,380	17,404,765
Other financial assets	564,707	-	-	-	564,707
Total	**2,718,659**	**3,394,287**	**9,993,792**	**1,963,380**	**18,070,118**
Liabilities					
Loans from banks	(465,812)	(900,941)	(4,054,234)	(4,515,595)	(9,936,582)
Payables to partners	(238,541)	-	-	-	(238,541)
Other financial liabilities	(161,430)	-	-	-	(161,430)
Total potential future payments for financial obligations	**(865,783)**	**(900,941)**	**(4,054,234)**	**(4,515,595)**	**(10,336,553)**
Liquidity gap arising from financial instruments	**1,852,876**	**2,493,346**	**5,939,558**	**(2,552,215)**	**7,733,565**

The Company does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Company monitors expected maturities and the resulting expected liquidity gap as follows:

In Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 1 year	From 1 year to 5 years	Total
At 31 December 2017					
Financial assets	2,764,126	3,766,772	9,077,778	594,415	16,203,091
Financial liabilities	(813,051)	(1,133,067)	(3,176,686)	(2,443,786)	(7,566,590)
Net liquidity gap based on expected maturities	**1,951,075**	**2,633,705**	**5,901,092**	**(1,849,371)**	**8,636,501**
At 31 December 2016					
Financial assets	2,442,884	3,130,451	8,436,695	1,757,522	15,767,552
Financial liabilities	(932,533)	(695,437)	(3,242,054)	(3,921,455)	(8,791,479)
Net liquidity gap based on expected maturities	**1,510,351**	**2,435,014**	**5,194,641**	**(2,163,933)**	**6,976,073**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Company's liquidity risk. It is unusual for financial corporations ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Company and its exposure to changes in interest and exchange rates.

20 Financial Risk Management (Continued)

Management considers that the current favorable macroeconomic environment for financial institutions operating in Azerbaijan, positive cash flows, the profitability of operations and access to foreign financial resources as required significantly decrease the risk of losses arising from current liquidity mismatches.

21 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a sufficient capital base.

As at 31 December 2017 and 2016, the Company complied with capital adequacy requirements set by financial covenants stipulated by loans from banks.

22 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates and both internal and external professional advice the Company's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation, as applied to the transactions and activity of the Company, may be challenged by the relevant state 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.

Compliance with covenants. The Company is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Company, including growth in the cost of borrowings and the timing of repayment of existing facilities.

23 Fair Value of Financial Instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of the Company's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

The following methods and assumptions are used by the Company to estimate the fair value of financial instruments not measured at fair value:

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 and making adjustments for credit risk of the Company or counterparty.

Loans to customers – the estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using market rates as at the respective year-end

Loans from banks – the estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using market rates as at the respective year-end.

23 Fair Value of Financial Instruments (Continued)

The following table discloses approximate fair values of financial assets and financial liabilities.

In Azerbaijani Manats	31 December 2017 Carrying Amount	31 December 2017 Fair value (Level 2)	31 December 2016 Carrying Amount	31 December 2016 Fair value (Level 2)
Financial assets:				
Cash and cash equivalents	170,848	170,848	100,646	100,646
Loans to customers	15,516,813	15,348,400	15,102,199	15,102,199
Other financial assets	515,522	515,522	564,707	564,707
Financial liabilities:				
Loans from banks	7,310,733	7,310,733	8,215,342	8,215,342
Payables to Partners	107,697	107,697	238,541	238,541
Other financial liabilities	148,160	148,160	161,430	161,430

The carrying amounts of cash and cash equivalents, other financial assets, payables to shareholders and other financial liabilities approximates fair value due to the short-term nature concluding of such financial instruments contracts on market terms.

The fair values of the financial assets and financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

The fair value of loans to customers and loans from banks is estimated by discounting the scheduled future cash flows of the individual assets/liabilities through the estimated maturity using market rates as at the respective year-end.

24 Presentation of Financial Instruments by Measurement Category

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

All financial assets fall within the loan and receivable category.

All financial liabilities are carried at amortised cost.

25 Related Party Transactions

Parties are generally considered to be related if the parties are 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.

At 31 December 2017, the outstanding balances with related parties were as follows:

In Azerbaijani Manats	Key management personnel	Entities under common control
Loans to customers	10,432	383,389
Agency costs	-	34,497
Other liabilities	50,352	1,527,542

25 Related Party Transactions (Continued)

At 31 December 2016, the outstanding balances with related parties were as follows:

In Azerbaijani Manats	Key management personnel	Entities under common control
Loans to customers	62,456	330,000
Agency costs	-	158,456
Other liabilities	38,331	88,083

Included in the statement of profit or loss and other comprehensive income for the years ended December 31, 2017 and 2016 are the following amounts which were recognized in transactions with related parties:

In Azerbaijani Manats	Key management personnel	Entities under common control	Shareholder
Agency costs	-	178,105	-
Rent expense	-	-	8,000
Business trip expense	1,086	-	-
Other income	-	72,000	-

In Azerbaijani Manats	Key management personnel	Entities under common control	Shareholder
Agency costs	-	195,582	-
Rent expense	-	24,000	-
Business trip expense	2,313	-	-
Other income	-	-	72,000

Key management compensation is presented below:

	2017	2016
In Azerbaijani Manats	Expense	Expense
Short-term employee benefits	402,852	326,396

26 Events after the Reporting Period

During the period from 01 January 2018 till approval date of these financial statements the Company repaid AZN 716,778 to Pasha Bank OJSC and AZN 727,154 to Kapital Bank OJSC.