

**Non-Bank Credit
Organization Embafinans
Limited Liability Company**

**Financial Statements and
Independent Auditor's Report**
For the Year Ended December 31, 2015

NON-BANK CREDIT ORGANIZATION EMBAFINANS LIMITED LIABILITY COMPANY

TABLE OF CONTENTS

	Page
Statement of management's responsibilities for the preparation and approval of the financial statements for the year ended December 31, 2015	1
Independent auditor's report	2
Financial statements for the year ended December 31, 2015:	
Statement of financial position	3
Statement of profit or loss and other comprehensive income	4
Statement of changes in equity	5
Statement of cash flows	6
Notes to the financial statements	
1. Organization	7
2. Significant accounting policies	7
3. Critical accounting judgements and key sources of estimation uncertainty	12
4. Application of new and revised International Financial Reporting Standards (IFRSs)	13
5. Cash and cash equivalents	16
6. Loans to customers	16
7. Property, equipment and intangible assets	18
8. Other assets	18
9. Loans from banks	19
10. Payables to "Embawood" LLC	19
11. Other liabilities	19
12. Share capital	20
13. Interest income	20
14. Operating expenses	20
15. Income taxes	21
16. Commitments and contingencies	22
17. Fair value of financial instruments	23
18. Risk management policies	24
19. Transactions with related parties	30
20. Capital risk management	32
21. Subsequent events	32

NON-BANK CREDIT ORGANIZATION EMBAFINANS LIMITED LIABILITY COMPANY

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Non-Bank Credit Organization Embafinans Limited Liability Company (the "Company") as at December 31, 2015, and the results of its operations, cash flows and changes in equity for the year then ended in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- Making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Company for the year ended December 31, 2015 were approved by management on June 16, 2016.

On behalf of the Management Board:


Mr. Samir Isgandarov
Chief Executive Officer

June 16, 2016
Baku, the Republic of Azerbaijan




Mr. Elnur Kazimov
Chief Accountant

June 16, 2016
Baku, the Republic of Azerbaijan

INDEPENDENT AUDITOR'S REPORT

To: the Shareholders and Management Board of the Non-Bank Credit Organization "Embafinans" Limited Liability Company:

We have audited the accompanying financial statements of the Non-Bank Credit Organization "Embafinans" Limited Liability Company (the "Company"), which comprise the statement of financial position as at December 31, 2015 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2015, and its financial performance and its cash flows for the year ended December 31, 2015 in accordance with International Financial Reporting Standards.



June 16, 2016
Baku, the Republic of Azerbaijan

NON-BANK CREDIT ORGANIZATION EMBAFINANS LIMITED LIABILITY COMPANY

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2015 (in Azerbaijan Manats)

	Notes	December 31, 2015	December 31, 2014
ASSETS:			
Cash and cash equivalents	5	118,866	191,638
Loans to customers	6, 19	16,058,646	27,062,243
Property, equipment and intangible assets	7	5,785,635	6,053,846
Deferred income tax assets	15	226,801	169,921
Other assets	8	1,062,313	915,594
TOTAL ASSETS		23,252,261	34,393,242
LIABILITIES:			
Loans from banks	9	7,553,775	11,786,954
Payables to "Embawood" LLC	10	3,067,531	7,966,984
Payables to shareholders	19	-	100,000
Current income tax liabilities		-	4,213
Other liabilities	11, 19	830,951	2,801,866
TOTAL LIABILITIES		11,452,257	22,660,017
EQUITY:			
Share capital	12	10,000,000	10,000,000
Retained earnings		1,800,004	1,733,225
TOTAL EQUITY		11,800,004	11,733,225
TOTAL LIABILITIES AND EQUITY		23,252,261	34,393,242

On behalf of the Management Board:

Mr. Samir Isgandarov
Chief Executive Officer

June 16, 2016
Baku, the Republic of Azerbaijan



Mr. Elnur Kazimov
Chief Accountant

June 16, 2016
Baku, the Republic of Azerbaijan

The notes on pages 7-32 form an integral part of these financial statements.

NON-BANK CREDIT ORGANIZATION EMBAFINANS LIMITED LIABILITY COMPANY

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015
(In Azerbaijan Manats)**

	Notes	Year ended December 31, 2015	Year ended December 31, 2014
Interest income:			
Loans to customers	13	7,900,524	7,479,907
Interest expense:			
Loans from banks		(1,913,044)	(1,534,546)
Other interest expense	10	(48,722)	(103,027)
Net interest income before impairment losses on interest bearing assets		5,938,758	5,842,334
Initial recognition adjustment on interest bearing assets	13	(1,365,793)	(730,988)
Initial recognition adjustment on interest bearing liabilities	10	107,114	279,453
Impairment losses on interest bearing assets	6	(594,619)	(379,898)
Net interest income		4,085,460	5,010,901
Fee and commission income		25,490	22,327
Fee and commission expense		(274,631)	(162,162)
Foreign exchange translation loss		(687,998)	(144)
Other income	19	97,892	74,143
Net non-interest loss		(839,247)	(65,836)
Operating income		3,246,213	4,945,065
Operating expenses	14, 19	(3,126,740)	(3,396,525)
Profit before income tax		119,473	1,548,540
Income tax expense	15	(52,694)	(318,053)
Total comprehensive income		66,779	1,230,487

On behalf of the Management Board

Mr. Samir Isgandarov
Chief Executive Officer

June 16, 2016
Baku, the Republic of Azerbaijan



Mr. Elnur Kazimov
Chief Accountant

June 16, 2016
Baku, the Republic of Azerbaijan

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NON-BANK CREDIT ORGANIZATION EMBAFINANS LIMITED LIABILITY COMPANY

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2015
(in Azerbaijan Manats)

	Note	Share Capital	Retained earnings	Total equity
January 1, 2014		10,000,000	502,738	10,502,738
Total comprehensive income for the period December 31, 2014		-	1,230,487	1,230,487
		10,000,000	1,733,225	11,733,225
Total comprehensive income for the period		-	66,779	66,779
December 31, 2015		10,000,000	1,800,004	11,800,004

On behalf of the Management Board


 Mr. Samir Isgandarov
 Chief Executive Officer

June 16, 2016
 Baku, the Republic of Azerbaijan




 Mr. Elnur Kazimov
 Chief Accountant

June 16, 2016
 Baku, the Republic of Azerbaijan

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NON-BANK CREDIT ORGANIZATION EMBAFINANS LIMITED LIABILITY COMPANY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2015 (in Azerbaijan Manats)

	Notes	Year ended December 31, 2015	Year ended December 31, 2014
Cash flows from operating activities:			
Interest received		6,595,726	6,443,380
Interest paid		(1,909,822)	(1,539,392)
Fees and commissions received		25,490	22,327
Fees and commissions paid		(274,631)	(162,162)
Other operating income received		97,892	74,143
Operating expenses paid		(2,927,343)	(3,010,272)
Income tax paid		(113,787)	(556,720)
Cash flows from operating activities before changes in operating assets and liabilities		1,493,525	1,271,304
Changes in operating assets and liabilities			
Net decrease/(increase) in loans to customers		10,347,983	(11,100,992)
Net increase in other assets		(78,661)	(742,337)
Net (decrease)/increase in other liabilities		(1,970,915)	2,714,378
Net (decrease)/increase in payables to "Embawood" LLC		(4,841,061)	8,043,718
Net cash from operating activities		4,950,871	186,071
Cash flows from investing activities			
Purchase of property, equipment and intangible assets	7	(8,123)	(9,269)
Net cash used in investing activities		(8,123)	(9,269)
Cash flows from financing activities			
Proceeds from loans from banks		(1,903,069)	3,529,800
Repayment of loans from banks		(2,333,332)	(2,333,332)
Proceeds from placements by shareholders		1,300,000	100,000
Repayment to shareholders		(1,391,121)	(1,400,000)
Net cash used in financing activities		(4,327,522)	(103,532)
Effect of exchange rate changes on the balance of cash held in foreign currencies		(687,998)	(144)
Net (decrease)/increase in cash and cash equivalents		(72,772)	73,126
CASH AND CASH EQUIVALENTS, beginning of the period	5	191,638	118,512
CASH AND CASH EQUIVALENTS, end of the period	5	118,866	191,638

On behalf of the Management Board


Mr. Samir Isgandarov
Chief Executive Officer

June 16, 2016
Baku, the Republic of Azerbaijan




Mr. Elnur Kazimov
Chief Accountant

June 16, 2016
Baku, the Republic of Azerbaijan

The notes on pages 7-32 form an integral part of these financial statements.

NON-BANK CREDIT ORGANIZATION EMBAFINANS LIMITED LIABILITY COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015
(in Azerbaijan Manats, unless otherwise indicated)

1. Organization

Embafinans Limited Liability Company (the "Company") is a Non-Bank Credit Organization, which was incorporated in the Republic of Azerbaijan in 2012. The Company is regulated by the Central Bank of the Republic of Azerbaijan (the "CBAR") and conducts its business under special license number BKT-10. The Company was reregistered to comply with the regulations of the CBAR, in accordance with which only legal entities can perform lending activities in the territory of Azerbaijan. The Company's primary business consists of loans origination. The Company mainly lends to individuals to purchase furniture and other home appliances from its related party, Embawood LLC. As at December 31, 2015 such loans represented 97% of total loans to customers (December 31, 2014: 91%). Under this license the Company does not have the right to obtain cash deposits and collateral in form of cash deposits.

The registered office of the Company is located at 15 B.Bagirova Street, Baku AZ 1065, the Republic of Azerbaijan.

As at December 31, 2015 and 2014, the following shareholders owned the issued share capital of the Company:

Shareholder	December 31, 2015, %	December 31, 2014, %
Mr. Elshad Abbasov Inshalla	60.0	60.0
Mr. Mashur Mammadov Shahbaz	40.0	40.0
Total	100.0	100.0

As at December 31, 2015 and 2014 the Company is ultimately controlled by Mr. Elshad Abbasov Inshalla.

These financial statements were authorized for issue on June 16, 2016 by the Management Board.

2. Significant accounting policies

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements have been prepared assuming that the Company is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in Azerbaijan Manats ("AZN"), unless otherwise indicated.

These financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Company maintains its accounting records in accordance with the regulations of CBAR. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented (see Note 18).

Functional currency. Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The functional currency of the Company is the AZN. The presentation currency of the financial statements of the Company is the AZN. All values are rounded to the nearest AZN, except when otherwise indicated.

Offsetting. Financial assets and financial 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 settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

The principal accounting policies are set out below.

Revenue recognition

Recognition of interest income and expense. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Recognition of fee and commission income. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry.

Financial instruments. The Company recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held to maturity' ("HTM") investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables. Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For financial asset that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortized cost, 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition of financial assets. The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity instruments issued

Classification as debt or equity. Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities. Financial liabilities are classified as 'other financial liabilities'.

Other financial liabilities. Other financial liabilities (including loans from banks, payables to shareholders and other financial liabilities) are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities. The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. 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 derecognition of the original liability and the recognition of a new liability.

The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Leases. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Cash and cash equivalents. Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with original maturity of less than or equal to 90 days and amounts due from banks and credit institutions with original maturity of less than or equal to 90 days and are free from contractual encumbrances.

Property and equipment. Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation 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:

Premises	4%
Computer and equipment	20%
Vehicles	20%

An item of property and equipment is derecognised 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 recognised in profit or loss.

Intangible assets

Intangible assets acquired separately. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives (5-10 years). The estimated useful life and amortisation 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.

Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible 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). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When 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 recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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

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

Deferred tax. Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Operating taxes. The Republic of Azerbaijan also has various other taxes, which are assessed on the Company's activities. These taxes are included as a component of operating expenses in the statement of profit or loss and other comprehensive income.

Provisions. Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Foreign currencies. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

The exchange rates used by the Company in the preparation of the financial statements as at year-end are as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
AZN/1 US Dollar	1.5594	0.7844
AZN/1 Euro	1.7046	0.9522

Retirement benefit costs. Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

3. Critical accounting judgements and key sources of estimation uncertainty.

In the application of the Company's accounting policies the Company management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables. The Company regularly reviews its loans and receivables to assess for impairment. The Company's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Company considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Company's estimated losses and actual losses would require the Company to record provisions which could have a material impact on its financial statements in future periods.

The Company uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Company estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Company uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Company is not in a position to predict what changes in conditions will take place in the Republic of Azerbaijan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at December 31, 2015 and 2014 the gross loans and receivables totaled AZN 17,170,284 and 27,579,262, respectively, and allowance for impairment losses amounted to AZN 1,111,638 and 517,019, respectively.

Valuation of financial instruments. As described (see Note 17), the Company uses valuation techniques that include inputs that are not based on observable market data 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.

Useful lives of property and equipment. As described above, the Company reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

Recoverability of deferred tax assets. The management of the Company is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely that the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to AZN 226,801 and 169,921 as at December 31, 2015 and 2014, respectively.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Amendments to IFRSs affecting amounts reported in the financial statements. In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

- Amendments to IAS 19 - *Defined Benefit Plans: Employee contributions*¹;
- Annual Improvements to IFRSs 2010-2012 Cycle¹;
- Annual Improvements to IFRSs 2011-2013 Cycle¹;

These amendments and interpretations do not have any effect on the Company's financial statements.

New and revised IFRSs in issue but not yet effective.

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- Annual Improvements to IFRSs 2012-2014 Cycle¹;
- IFRS 14 *Regulatory Deferral Accounts*¹;
- Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation*¹;
- Amendments to IAS 27 - *Equity Method in Separate Financial Statements*¹;
- Amendments to IAS 16 and IAS 41 - *Agriculture: Bearer Plants*¹;
- Amendments to IFRS 11 - *Accounting for Acquisition of Interests in Joint Operations*¹;
- Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*¹;
- IFRS 15 *Revenue from Contracts with Customers*²;
- IFRS 9 *Financial Instruments*³;
- IFRS 16 *Leases*⁴;
- Amendments to IAS 12 - *Recognition of Deferred Tax Assets for Unrealised Losses*².

¹ Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

² Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

³ Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

⁴ Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The management of the Company does not anticipate that the application of these amendments and interpretations will have a significant impact on the financial statements except for the following:

IFRS 9 *Financial Instruments*. IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 *Financial Instruments*:

Recognition and Measurement.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognised.
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from January 1, 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Company anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify the following aspects:

Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.

The carrying amount of an asset does not limit the estimation of probable future taxable profits. Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition relief for first-time adopters.

The management of the Company does not expect any impact of adoption of these amendments on the financial statements.

5. Cash and cash equivalents

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Correspondent accounts	19,414	120,385
Cash on hand	<u>99,452</u>	<u>71,253</u>
Total cash and cash equivalent	<u>118,866</u>	<u>191,638</u>

6. Loans to customers

The Company uses the following classification of loans by classes:

- Consumer loans;
- Other.

Loans to customers comprise:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Consumer loans	16,597,882	27,390,119
Other	<u>572,402</u>	<u>189,143</u>
Gross loans to customers	17,170,284	27,579,262
Less: allowance for impairment losses	<u>(1,111,638)</u>	<u>(517,019)</u>
Total loans to customers	<u>16,058,646</u>	<u>27,062,243</u>

As at December 31, 2015 and 2014 100% of loans are granted to individuals who are citizens of the Republic of Azerbaijan, which represents a significant geographical concentration in one region.

The Company mainly lends to individuals to purchase furniture and other home appliances from its related party, Embawood LLC. As at December 31, 2015 such loans represented 97% of total loans to customers (December 31, 2014: 91%).

Analysis by credit quality of consumer and other loans as at December 31, 2015 is presented as follows:

Consumer loans As at December 31, 2015	Consumer loans	Other loans	Total
Collectively assessed			
Not past due	14,848,310	556,383	15,404,693
Overdue:			
up to 30 days	584,136	5,430	589,566
31 to 60 days	125,218	1,161	126,379
61 to 90 days	61,981	-	61,981
91 to 180 days	208,662	3,148	211,810
over 180 days	769,575	6,280	775,855
Total collectively assessed loans	16,597,882	572,402	17,170,284
Less: allowance for impairment losses	(1,099,309)	(12,329)	(1,111,638)
Total consumer loans	15,498,573	560,073	16,058,646

Analysis by credit quality of consumer and other loans as at December 31, 2014 is presented as follows:

Consumer loans As at December 31, 2014	Consumer loans	Other loans	Total
Collectively assessed			
Not past due	25,839,498	178,646	26,018,144
Overdue:			
up to 30 days	989,448	5,343	994,791
31 to 60 days	49,163	83	49,246
61 to 90 days	22,144	-	22,144
91 to 180 days	73,810	-	73,810
over 180 days	416,056	5,071	421,127
Total collectively assessed loans	27,390,119	189,143	27,579,262
Less: allowance for impairment losses	(511,743)	(5,276)	(517,019)
Total consumer loans	26,878,376	183,867	27,062,243

The analysis of changes for allowance for impairment losses is presented in the table below:

	Consumer loans	Other	Total
As at January 1, 2014	(135,123)	(1,998)	(137,121)
Provision charge	(376,620)	(3,278)	(379,898)
As at December 31, 2014	(511,743)	(5,276)	(517,019)
Provision charge	(587,566)	(7,053)	(594,619)
As at December 31, 2015	(1,099,309)	(12,329)	(1,111,638)

The table below summarizes an analysis of loans to customers by type of impairment:

	December 31, 2015		December 31, 2014		Carrying value	
	Carrying value before allowance	Allowance for impairment losses	Carrying value before allowance	Allowance for impairment losses		
Loans to customers collectively determined to be impaired	1,765,591	(1,049,394)	716,197	1,561,118	(517,019)	1,044,099
Collectively unimpaired loans	15,404,693	(62,244)	15,342,449	26,018,144	-	26,018,144
Total	17,170,284	(1,111,638)	16,058,646	27,579,262	(517,019)	27,062,243

7. Property, equipment and intangible assets

Property, equipment and intangible assets comprise:

	Premises	Computer and equipment	Vehicles	Computer software	Total
At cost					
January 1, 2014	6,500,000	17,307	42,800	3,225	6,563,332
Additions	-	9,269	-	-	9,269
Disposal	-	-	-	-	-
December 31, 2014	6,500,000	26,576	42,800	3,225	6,572,601
Additions	-	8,123	-	-	8,123
Disposal	-	-	(8,880)	-	(8,880)
December 31, 2015	6,500,000	34,699	33,920	3,225	6,571,844
Accumulated depreciation					
January 1, 2014	(37,917)	(2,678)	(9,384)	(194)	(50,173)
Depreciation and amortization charge	(455,573)	(4,126)	(8,560)	(323)	(468,582)
December 31, 2014	(493,490)	(6,804)	(17,944)	(517)	(518,755)
Depreciation and amortization charge	(255,535)	(5,996)	(5,600)	(323)	(267,455)
December 31, 2015	(749,025)	(12,800)	(23,544)	(840)	(786,210)
Net book value					
As at December 31, 2015	<u>5,750,975</u>	<u>21,899</u>	<u>10,376</u>	<u>2,385</u>	<u>5,785,635</u>
As at December 31, 2014	<u>6,006,510</u>	<u>19,772</u>	<u>24,856</u>	<u>2,708</u>	<u>6,053,846</u>

Details of the Company's buildings and information about the fair value hierarchy as at December 31, 2015 are as follows:

	Level 2	Fair value as at December 31, 2015
Premises	<u>5,750,975</u>	<u>5,750,975</u>
Total	<u>5,750,975</u>	<u>5,750,975</u>

8. Other assets

Other assets comprise:

	December 31, 2015	December 31, 2014
Other financial assets		
Receivables from counterparties (*)	373,586	828,093
Other	<u>535,262</u>	<u>2,094</u>
	908,848	830,187
Other non-financial assets		
Deferred expenses	<u>153,465</u>	<u>85,407</u>
	153,465	85,407
Total other assets	<u>1,062,313</u>	<u>915,594</u>

(*) – Amount is cash in transit receivable from agencies providing the service of processing customers' repayments.

9. Loans from banks

Loans from banks comprise:

	Currency	Maturity	Nominal interest rate %	December 31, 2015	December 31, 2014
Funding by Local Bank A	AZN	September 13, 2018	12.0%	3,011,159	4,014,002
Funding by Local Bank A	AZN	May 22, 2018	12.0%	2,530,165	3,542,164
Funding by Local Bank A	AZN	November 14, 2016	16.0%	1,676,482	-
Funding by Local Bank C	AZN	September 16, 2016	12.0%	335,969	675,101
Funding by Local Bank B	USD	April 9, 2015	12.0%	-	3,555,687
Total loans from banks				7,553,775	11,786,954

The Company is not obligated to comply with any financial covenants in relation to the loans disclosed above.

10. Payables to "Embawood" LLC

	December 31, 2015	December 31, 2014
Payables to "Embawood" LLC	3,067,531	7,966,984
Total Payables to "Embawood" LLC	3,067,531	7,966,984

On February 1, 2014, the Company started "the interest free loan campaign". The Company issues interest free rate loans for a one-year period to customers in order for them to acquire furniture and other home appliances from its related party, "Embawood" LLC. The cash price of goods is transferred directly to "Embawood" LLC either at the loan origination date or at a later date. As at December 31, 2015, amount payable to "Embawood" LLC was AZN 3,067,531 (2014: AZN 7,966,984). Under the campaign, "Embawood" LLC prepays the Company amount equal to the first six months cumulative interest of the loan, calculated at 28% for a twelve months annuity. Interest income received is recognized as deferred interest income and released to profit or loss over a twelve months period. As at December 31, 2015, deferred interest income was AZN 526,006 (2014: AZN 2,353,426). The Company discounted payables to "Embawood" LLC using market rates and recognized a gain amounted to AZN 107,114 (2014:279,453) on initial recognition and interest expense amounting to AZN 48,722 (2014:AZN 103,027).

11. Other liabilities

Other liabilities comprise:

	December 31, 2015	December 31, 2014
Other financial liabilities:		
Deferred interest income	526,006	2,353,426
Payable to the employees	105,929	106,351
Service fees payables to "Embawood" LLC	-	68,607
Rent payable	-	48,000
Professional fees payable	-	29,854
Other	32,740	42,986
	664,675	2,649,224
Other non-financial liabilities:		
Taxes payable, other than income tax	39,106	103,864
Other	127,170	48,778
	166,276	152,642
Total other liabilities	830,951	2,801,866

12. Share capital

As at December 31, 2015 and 2014 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, 2015 and 2014.

During the year ended December 31, 2013, shareholders have made AZN 9,500,000 amount of contribution to share capital, AZN 3,000,000 of which is contributed in cash. The remaining AZN 6,500,000 is the real estate located at Baku and the initial recognition amount represents the fair value of the premise at the date of recognition.

13. Interest income

Interest income on loans to customers comprises:

	Year ended December 31, 2015	Year ended December 31, 2014
Financial assets recorded at amortized cost:		
- unimpaired financial assets	7,486,594	6,688,225
- impaired financial assets	413,930	791,682
Total interest income	7,900,524	7,479,907

As explained in Note 10 the Company started "the interest free loan campaign" in February 2014. The Company calculated fair value of these loans using market rates for similar type of loans and recognized a loss on initial recognition of assets in the statement of profit or loss and other comprehensive income. The unwinding of the discount is included in interest income.

14. Operating expenses

Operating expenses comprise:

	Year ended December 31, 2015	Year ended December 31, 2014
Staff costs	2,241,928	2,323,886
Depreciation and amortization	267,455	468,582
Computer software and communication	202,049	172,403
Payments to Embawood LLC	174,499	178,963
Tax expense	62,529	92,906
Rent expenses	24,000	24,000
Business trip expenses	15,178	23,224
Advertising costs	10,974	14,312
Office supplies	7,391	9,361
Printing expenses	7,073	8,076
Vehicle running costs	4,337	4,665
Insurance expense	3,575	2,341
Professional services	2,950	37,051
Security expense	2,829	1,635
Property and equipment maintenance	1,916	7,176
Training expenses	-	8,329
Other expenses	98,057	19,615
Total operating expenses	3,126,740	3,396,525

Payments to Embawood represents expenses paid in accordance with an agreement between the Company and Embawood LLC.

Loan officers of the Company occupy premises in the shops of Embawood LLC and Embawood LLC provided them with stationery materials, IT services such as continuous internet connection, provision of technical security of computer equipment and supply of workplace security, and other conditions necessary for maintaining a normal work environment of the Company's loans officers in the stores.

15. Income taxes

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2015 and 2014 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Republic of Azerbaijan on taxable profits (as defined) under tax law in that jurisdiction.

Deferred tax assets as at December 31, 2015 and 2014 comprise:

	December 31, 2015	December 31, 2014
Deferred tax assets in relation to:		
Loans to customers	277,279	178,375
Property, plant and equipment	(31,144)	-
Other liabilities	(19,334)	(8,454)
Net deferred tax asset	226,801	169,921

The effective tax rate reconciliation is as:

	Year ended December 31, 2015	Year ended December 31, 2014
Profit before income tax	119,473	1,548,540
Tax at the statutory tax rate (20%)	23,895	309,708
Tax effect of permanent differences	28,799	8,345
Income tax expense	52,694	318,053
Current income tax expense	109,574	328,795
Changes in deferred income tax balances	(56,880)	(10,742)
Income tax expense	52,694	318,053
Deferred income tax assets	2015	2014
As at January 1 – deferred tax assets	169,921	159,179
Change in deferred income tax balances recognized in profit or loss	56,880	10,742
As at December 31- deferred tax assets	226,801	169,921

16. Commitments and contingencies

Capital commitments

As at December 31, 2015 and 2014 the Company had no material capital commitments.

Operating lease commitments

As at December 31, 2015 and 2014, the Company does not have material commitments under non-cancelable operating leases, where the Company is the lessee.

Legal proceedings

From time to time and in the normal course of business, claims against the Company might be received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation – Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Company's business activities, was to be challenged by the tax authorities, the Company may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Company believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. In the case of criminal investigation statute of limitation may be extended up to seven years based on the court decision.

Operating environment – Emerging markets such as Azerbaijan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Azerbaijan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future stability of the Azerbaijan economy is heavily influenced by reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Because Azerbaijan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly. As a result, Azerbaijani manat devalued against the US dollar and other major currencies. In December 2015, the Central Bank of the Republic of Azerbaijan announced floating exchange rate. In January 2016, Standard & Poor's, international credit agency, has downgraded long-term and short-term foreign and national currency sovereign ratings.

These events resulted in worsening of liquidity in the banking system and much tighter credit conditions. There continues to be uncertainty regarding economic growth, access to capital and cost of capital which could adversely affect the Company's future results and financial position and business prospects, including deterioration of the quality of the loan portfolio, increase of non-performing loans and decrease in loan collateral values and losses on investment securities.

Azerbaijani government announced plans to accelerate reforms and support the banking system in response to current economic challenges. The Company's management is taking measures to support sustainability of the Company's business in the foreseeable future.

17. 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.

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

	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair value (Level 2)	Carrying Amount	Fair value (Level 2)
Financial assets:				
Cash and cash equivalents	118,866	118,866	191,638	191,638
Loans to customers	16,058,646	17,263,806	27,062,243	28,054,576
Other financial assets	908,848	908,848	830,187	830,187
Financial liabilities:				
Loans from banks	7,553,775	8,034,572	11,786,954	13,103,234
Payables to "Embawood" LLC	3,067,531	3,067,531	7,966,984	7,966,984
Payables to shareholders			100,000	100,000
Other financial liabilities	664,675	664,675	2,649,224	2,649,224

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 and advances 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.

18. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Company's business and is an essential element of the Company's operations. The main risks inherent to the Company's operations are those related to;

- Credit exposures;
- Liquidity risk;
- Market risk.

The Company recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Company has established a risk management framework, whose main purpose is to protect the Company from risk and allow it to achieve its performance objectives.

Credit risk

The Company is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by Credit Committee and the Company's Management Board. Also daily risk management is performed by the Risk Management Department. Limits on lending are set by the Management Board.

The Company structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. The Management Board approves limits on the level of credit risk by a borrower.

Where appropriate, and in the case of most loans, the Company obtains collateral. Risks associated with collaterals are monitored on a continuous basis and subject to monthly reviews.

Maximum exposure of credit risk

The Company's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets.

Geographical concentration

The Company conducts lending activities only within territory of Azerbaijan Republic as at December 31, 2015 and 2014, 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.

Collateral

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

The main types of collateral obtained are furniture and other home appliances.

During the year, the Company did not take possession of any collateral.

The following table presents the maximum exposure to credit risk. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Company's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure
December 31, 2015					
Cash and cash equivalents	19,414	-	-	-	19,414
Loans to customers	16,058,646	-	16,058,646	15,498,573	560,073
Other financial assets	908,848	-	-	-	908,848
December 31, 2014					
Cash and cash equivalents	120,385	-	-	-	120,385
Loans to customers	27,062,243	-	-	26,878,376	183,857
Other financial assets	830,187	-	-	-	830,187

Credit rating

The following table details credit ratings of financial assets held by the Company that are neither past due nor impaired:

December 31, 2015	BBB	<BBB	Not rated	Total
Cash and cash equivalents	980	8,563	9,871	19,414
Loans to customers	-	-	15,404,693	15,404,693
Other financial assets	-	-	908,848	908,848
December 31, 2014				
Cash and cash equivalents	-	119,943	442	120,385
Loans to customers	-	-	26,018,144	26,018,144
Other financial assets	-	-	830,187	830,187

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 Company applies internal methodologies to specific and groups of retail loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan.

As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the statement of financial position. As such, more detailed information is not being presented.

Liquidity risk

Liquidity risk management

Liquidity risk refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they actually fall due.

The Management Board controls these types of risks by means of maturity analysis, determining the Company's strategy for the next financial period. Current liquidity is managed by the Accounting Department, which is responsible for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Company performs monthly monitoring of future expected cash flows on clients' and other operations, which is a part of assets/liabilities management process. An analysis of liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the entity.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2015 Total
FINANCIAL ASSETS						
Fixed interest rate instruments						
Loans to customers	29%	<u>1,548,408</u>	<u>3,744,950</u>	<u>8,297,718</u>	<u>2,466,153</u>	<u>16,058,646</u>
Total interest bearing financial assets		<u>1,548,408</u>	<u>3,744,950</u>	<u>8,297,718</u>	<u>2,466,153</u>	<u>16,058,646</u>
Non-interest bearing financial assets						
Cash and cash equivalents		118,866	-	-	-	118,866
Other financial assets		<u>908,848</u>	-	-	-	<u>908,848</u>
Total non-interest bearing financial assets		<u>1,027,714</u>	-	-	-	<u>1,027,714</u>
Total financial assets		<u>2,577,539</u>	<u>3,744,950</u>	<u>8,297,718</u>	<u>2,466,153</u>	<u>17,086,360</u>
FINANCIAL LIABILITIES						
Fixed interest rate instruments						
Loans from banks	12.0%	85,614	968,158	3,000,003	3,500,000	7,553,775
Payables to "Embawood" LLC	8.24%	-	-	<u>3,067,531</u>	-	<u>3,067,531</u>
Total interest bearing financial liabilities		<u>85,614</u>	<u>968,158</u>	<u>6,067,534</u>	<u>3,500,000</u>	<u>10,621,306</u>
Non-interest bearing financial liabilities						
Other financial liabilities		<u>253,838</u>	<u>198,787</u>	<u>216,962</u>	<u>(4,912)</u>	<u>664,675</u>
Total non-interest bearing financial liabilities		<u>253,838</u>	<u>198,787</u>	<u>216,962</u>	<u>(4,912)</u>	<u>664,675</u>
Total financial liabilities		<u>339,452</u>	<u>1,166,945</u>	<u>6,284,496</u>	<u>3,495,088</u>	<u>11,285,981</u>
Interest sensitivity gap		<u>1,464,211</u>	<u>2,776,792</u>	<u>2,230,184</u>	<u>(1,033,847)</u>	
Cumulative interest sensitivity gap		<u>1,464,211</u>	<u>4,241,003</u>	<u>6,471,187</u>	<u>5,437,340</u>	
Liquidity gap		<u>2,238,087</u>	<u>2,578,005</u>	<u>2,013,222</u>	<u>(1,028,935)</u>	
Cumulative liquidity gap		<u>2,238,087</u>	<u>4,816,092</u>	<u>6,829,314</u>	<u>5,800,379</u>	

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2014 Total
FINANCIAL ASSETS						
Fixed interest rate instruments						
Loans to customers	28.9%	<u>3,716,532</u>	<u>10,227,784</u>	<u>13,088,777</u>	<u>29,150</u>	<u>27,062,243</u>
Total interest bearing financial assets		<u>3,716,532</u>	<u>10,227,784</u>	<u>13,088,777</u>	<u>29,150</u>	<u>27,062,243</u>
Non-interest bearing financial assets						
Cash and cash equivalents		191,638	-	-	-	191,638
Other financial assets		<u>630,187</u>	-	-	-	<u>630,187</u>
Total non-interest bearing financial assets		<u>1,021,825</u>	-	-	-	<u>1,021,825</u>
Total financial assets		<u>4,738,357</u>	<u>10,227,784</u>	<u>13,088,777</u>	<u>29,150</u>	<u>28,084,068</u>
FINANCIAL LIABILITIES						
Fixed interest rate instruments						
Loans from banks	12.0%	124,986	570,335	5,279,799	5,811,834	11,786,954
Payables to "Embawood" LLC	8.24%	<u>3,354,798</u>	-	<u>4,612,186</u>	-	<u>7,966,984</u>
Total interest bearing financial liabilities		<u>3,479,784</u>	<u>570,335</u>	<u>9,891,985</u>	<u>5,811,834</u>	<u>19,753,938</u>
Non-interest bearing financial liabilities						
Other financial liabilities		<u>465,948</u>	<u>100,000</u> <u>688,785</u>	<u>-</u> <u>1,494,491</u>	<u>-</u> <u>-</u>	<u>100,000</u> <u>2,649,224</u>
Total non-interest bearing financial liabilities		<u>465,948</u>	<u>788,785</u>	<u>1,494,491</u>	<u>-</u>	<u>2,749,224</u>
Total financial liabilities		<u>3,945,732</u>	<u>1,359,120</u>	<u>11,386,476</u>	<u>5,811,834</u>	<u>22,503,162</u>
Interest sensitivity gap		<u>236,748</u>	<u>9,657,449</u>	<u>3,196,792</u>	<u>(5,782,684)</u>	
Cumulative interest sensitivity gap		<u>236,748</u>	<u>9,894,197</u>	<u>13,090,989</u>	<u>7,308,305</u>	
Liquidity gap		<u>792,625</u>	<u>8,868,664</u>	<u>1,702,301</u>	<u>(5,782,684)</u>	
Cumulative liquidity gap		<u>792,625</u>	<u>9,661,289</u>	<u>11,363,590</u>	<u>5,580,906</u>	

In the table above, the terms to maturity correspond to the contractual terms.

The following tables detail the Company's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Company may be required to pay.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2015 Total
Fixed interest rate instruments						
Loans from banks	12.0%	115,444	1,123,241	3,502,336	3,920,000	8,661,021
Payables to "Embawood" LLC	8.24%	-	-	3,125,923	-	3,125,923
Total fixed interest bearing financial liabilities		115,444	1,123,241	6,628,259	3,920,000	11,786,944
Non-interest bearing financial liabilities						
Other financial liabilities		253,838	198,787	216,962	(4,912)	664,675
Total non-interest bearing financial liabilities		253,838	198,787	216,962	(4,912)	664,675
Total financial liabilities		369,282	1,322,028	6,845,221	3,915,088	12,451,619

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2014 Total
Fixed interest rate instruments						
Loans from banks	12.0%	138,409	797,596	5,946,153	6,824,336	13,706,494
Payables to "Embawood" LLC	8.24%	3,408,556	-	4,734,854	-	8,143,410
Total fixed interest bearing financial liabilities		3,546,965	797,596	10,681,007	6,824,336	21,849,904
Non-interest bearing financial liabilities						
Payables to shareholders		-	100,000	-	-	100,000
Other financial liabilities		465,948	688,785	1,494,491	-	2,649,224
Total non-interest bearing financial liabilities		465,948	788,785	1,494,491	-	2,749,224
Total financial liabilities		4,012,913	1,586,381	12,175,498	6,824,336	24,599,128

Financing facilities

Market risk

Market risk is that 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.

Interest rate sensitivity

The company is not exposed to interest rate risk because all borrowings are at fixed interest rates. The company manages the risk by maintaining fixed rate borrowings.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Company's exposure to foreign currency exchange rate risk is presented in the tables below:

	AZN	USD	EUR	December 31, 2015 Total
FINANCIAL ASSETS				
Cash and cash equivalents	118,006	399	461	118,866
Loans to customers	16,058,646	-	-	16,058,646
Other financial assets	908,848	-	-	908,848
Total financial assets	17,085,500	399	461	17,086,360
FINANCIAL LIABILITIES				
Loans from banks	7,553,775	-	-	7,553,775
Payables to "Embawood" LLC	3,067,531	-	-	3,067,531
Payables to shareholders	-	-	-	-
Other financial liabilities	664,675	-	-	664,675
Total financial liabilities	11,285,981	-	-	11,285,981
Open currency position	5,799,519	399	461	
	AZN	USD	EUR	December 31, 2014 Total
FINANCIAL ASSETS				
Cash and cash equivalents	190,830	318	490	191,638
Loans to customers	27,062,243	-	-	27,062,243
Other financial assets	830,187	-	-	830,187
Total financial assets	28,083,260	318	490	28,084,068
FINANCIAL LIABILITIES				
Loans from banks	8,231,267	3,555,687	-	11,786,954
Payables to "Embawood" LLC	7,966,984	-	-	7,966,984
Payables to shareholders	100,000	-	-	100,000
Other financial liabilities	2,649,224	-	-	2,649,224
Total financial liabilities	18,947,475	3,555,687	-	22,503,162
Open currency position	9,135,785	(3,555,369)	490	

Currency risk sensitivity.

The following table details the Company's sensitivity to a 35% increase and decrease in the AZN against the relevant foreign currencies. 35% is the sensitivity rate used due to devaluation of AZN against USD and EUR. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 35% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the AZN strengthens 35% against the relevant currency. For a 35% weakening of the AZN against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

	USD impact		EUR impact	
	2015	2014	2015	2014
Profit before tax	140	(1,244,379)	161	172

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the year end exposure does not reflect the exposure during the year.

Limitations of sensitivity analysis.

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk-own products

The Company is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Company manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Operational risk

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

19. Transactions with related parties

Details of transactions between the Company and related parties are disclosed below:

	December 31, 2015		December 31, 2014	
	Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Loans to customers - key management personnel	272,163	16,058,646	8,658	27,062,243
Payables to shareholders - shareholders	-	-	100,000	100,000
Payables to "Embawood" LLC - entities with joint control or significant influence over the Company	3,067,531	3,067,531	7,966,984	7,966,984
Other liabilities - shareholders - entities with joint control or significant influence over the Company - key management personnel of the Company	- 526,006 15,252	830,951	48,000 2,422,033 37,976	2,801,866

The remuneration of Company's management was as follows:

	2015		2014	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Key management personnel compensation: - short-term employee benefits	369,412	2,241,928	404,955	2,323,886
Total	369,412	2,241,928	404,955	2,323,886

Included in the statement of profit or loss and other comprehensive income for the years ended December 31, 2015 and 2014 are the following amounts which were recognized in transactions with related parties:

	2015		2014	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Business trip expense - key management personnel	3,397	15,178	4,377	23,224
Rent expense - shareholders	24,000	24,000	24,000	24,000
Payments to Embawood LLC - entities with joint control or significant influence over the Company	174,499	174,499	172,403	172,403
Other income - entities with joint control or significant influence over the Company	72,000	97,892	72,000	74,143

20. Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The Company is not subject to capital adequacy monitoring by any regulatory or supervisory body. The capital structure of the Company consists of issued capital and retained earnings as disclosed in statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, based on recommendations of the Board, the Company balances its overall capital structure through payment of dividends or new share issues.

21. Subsequent events

As at the date of the report issuance the Company has repayed AZN 2 million payable to the local banks.

On May 24, 2016 the Company has borrowed new funds from a Local bank in the amount of AZN 1.8 million repayable within 18 months at an interest rate of 19.6385%.