Embafinans NBCO LLC

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

31 December 2018

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Independent Auditor's Report

To the Shareholders and Board of Directors of Embafinans Non-bank Credit Organisation Limited Liability Company:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Embafinans Non-bank Credit Organisation Limited Liability Company (the "Company") as at 31 December 2018, 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 2018;
- 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.

Our audit approach

Materiality	Overall materiality: Azerbaijan Manat ("AZN") 113 thousands, which represents 2.5% of net interest income
Key audit matters	Credit loss allowance for loans to customers

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall materiality	AZN 113 thousands
How we determined it	2.5% of the Company's net interest income
Rationale for the materiality benchmark applied	We chose Net margin on interest and similar income as the benchmark because it is a generally accepted benchmark for industry the Company operates. We chose 2.5%, which is consistent with quantitative materiality thresholds used for companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Credit loss allowance for loans to customers. Measurement of expected credit losses (ECLs) is a significant estimate that involves determination of methodology, models and material data inputs. ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Company: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate. The Company regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. The entity develops the estimate based on detailed knowledge of the entity's risk, credit exposure, and risk mitigation practices and how these may be impacted by forward-looking events and conditions. Considering the level of audit risk, significance of loans to customers, complexity and high degree of judgements applied in the estimating ECL, credit loss allowance for loans to customers was key audit matter. *Refer to Note 4 "Critical Accounting Estimates and Judgements in Applying Accounting Policies, Note 8 "Loans to customers".*	We obtained an understanding of the entity's process for estimating ECL. This understanding included the underlying data and systems, which are used by the entity in determining the ECL estimate. We also understood where the entity has made judgments significant to the ECL estimate, the sufficiency of the information to support those judgments and the degree of estimation uncertainty inherent in those judgments. We evaluated and tested the reasonableness of the ECL methodology developed and applied by management. This includes components such as, model risk parameters (PD, LGD and EAD), forward-looking information, associated weighting, staging analysis and the ECL calculation. We assessed the appropriateness of PD, LGD and EAD by: - obtaining a detailed understanding of the methodology and assumptions; - testing the appropriateness of the entity's approach to loan portfolio segmentation; - evaluating the entity's modelling methodology used to create a 12-month PD and lifetime PD by the verification of data quality, open dates, maturity dates, overdue days and repayment schedules; evaluate whether forward-looking information is appropriately incorporated in the model; - assessing the reasonableness of the cash recoveries; - evaluating the appropriateness of the statistical methodology used under IFRS 9; - determining whether there is sufficient default data for the portfolio/segments to perform the LGD modelling and procedures regarding the loan collection. We obtained detailed understanding of the methodology applied by management to generate representative forward-looking scenarios, assigned weights, used variables and analysis of scenarios in relation to the central scenarios. We got understanding of the rationale behind using the EIR approximation for discounting used in the ECL calculation. We evaluated information disclosed in the notes to the financial statements, with regard to the credit loss allowance for loans to customers.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Fahri Mustafayev

PricewaterhouseCoopers Audit Azerbaijan LLC

May 13, 2019

Baku, the Republic of Azerbaijan

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Embafinans NBCO LLC
Statement of Financial Position

In Azerbaijani Manats	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	7	194,567	170,848
Loans and advances to customers	8	23,434,041	15,516,813
Property, equipment and intangible assets	9	5,279,023	5,622,550
Deferred income tax assets		-	151,083
Other assets	10	737,098	576,816
TOTAL ASSETS		**29,644,729**	**22,038,110**
LIABILITIES			
Debt securities in issue	11	2,791,816	-
Loans from banks	12	9,665,078	7,310,733
Payables to partners	13	500,950	107,697
Current income tax liabilities		412,979	43,107
Deferred income tax liability	19	45,232	-
Other liabilities	15	2,047,278	1,730,117
TOTAL LIABILITIES		**15,463,333**	**9,191,654**
EQUITY			
Charter capital		10,000,000	10,000,000
Retained earnings		4,181,396	2,846,456
TOTAL EQUITY		**14,181,396**	**12,846,456**
TOTAL LIABILITIES AND EQUITY		**29,644,729**	**22,038,110**

Approved for issue and signed on behalf of the Management on 10 May 2019.

Mr. Samir Isgandarov
Chairman of the Board of Directors

Mr. Elnur Kazimov
Chief Financial Officer

The notes set out on pages 5 to 44 form an integral part of these financial statements.

In Azerbaijani Manats	Note	2018	2017
Interest income calculated using the effective interest method	16	5,782,039	4,380,527
Interest and similar expense	16	(1,263,032)	(1,180,847)
Net margin on interest and similar income		**4,519,007**	**3,199,680**
(Credit loss allowance) / Recovery from loan impairment	8	(65,263)	88,814
Net margin on interest and similar income after credit loss allowance		**4,453,744**	**3,288,494**
Fee and commission income	17	1,214,947	742,757
Fee and commission expense	17	(226,322)	(179,413)
Losses on initial recognition of assets at rates below market		-	(71,818)
Foreign exchange translation gains less losses		565	(800)
Administrative and other operating expenses	18	(3,140,369)	(3,072,362)
Profit before income tax		**2,302,565**	**706,858**
Income tax expense	19	(475,271)	(137,858)
Profit for the year		**1,827,294**	**569,000**
Total comprehensive income for the year		**1,827,294**	**569,000**

The notes set out on pages 5 to 44 form an integral part of these financial statements.

In Azerbaijani Manats	Note	Charter capital	Retained earnings	Total equity
Balance as at 1 January 2017		**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	20	-	(600,000)	(600,000)
Balance as at 31 December 2017		**10,000,000**	**2,846,456**	**12,846,456**
Adoption of IFRS 9:				
– remeasurement for expected credit losses, net of tax	5	-	128,462	128,462
– other effects		-	(170,816)	(170,816)
Restated balance at 1 January 2018		**10,000,000**	**2,804,102**	**12,804,102**
Profit for the year		-	1,827,294	1,827,294
Total comprehensive income for 2018		-	1,827,294	1,827,294
Dividends paid	20	-	(450,000)	(450,000)
Balance as at 31 December 2018		**10,000,000**	**4,181,396**	**14,181,396**

In Azerbaijani Manats	**2018**	**2017**
Cash flows from operating activities		
Interest received	3,827,898	3,459,392
Interest paid	(1,165,221)	(1,194,561)
Fees and commissions received	111,632	90,053
Fees and commissions paid	(226,322)	(179,413)
Operating expenses paid	(2,765,093)	(2,719,611)
Income tax paid	(90,000)	(180,000)
Cash flows used in operating activities before changes in operating assets and liabilities	**(307,106)**	**(724,140)**
Net increase in:		
- loans and advances to customers	(7,807,875)	(513,644)
- other assets	(160,280)	49,660
Net increase in:		
- other liabilities	2,157,414	2,334,824
- payables to partners	1,496,568	446,846
Net cash (used in)/from operating activities	**(4,621,279)**	**1,593,546**
Cash flows from investing activities		
Acquisition of properties and equipment and intangible assets	(31,750)	(21,608)
Net cash used in investing activities	**(31,750)**	**(21,608)**
Cash flows from financing activities		
Proceeds from loans from banks	16,477,292	3,831,000
Repayment of loans from banks	(14,169,979)	(4,731,936)
Issue of corporate bonds	3,000,000	-
Repayment of Corporate bonds	(180,000)	-
Dividends paid	(450,000)	(600,000)
Net cash from/(used) financing activities	**4,677,313**	**(1,500,936)**
Effect of exchange rate changes on cash and cash equivalents	(565)	(800)
Net increase in cash and cash equivalents	**23,719**	**70,202**
Cash and cash equivalents at the beginning of the year	170,848	100,646
Cash and cash equivalents at the end of the year	**194,567**	**170,848**

The notes set out on pages 5 to 44 form an integral part of these financial statements.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018 for Embafinans NBCO LLC ("the Company").

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

As at December 31, 2018 and 2017, the following shareholders owned the issued charter capital of the Company:

Shareholder	31 December 2018	31 December 2017
Mr. Elshad Abbasov Inshalla	60%	60%
Mr. Mashur Mammadov Shahbaz	40%	40%
Total	**100%**	**100%**

As at 31 December 2018 and 2017 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 2018 such loans represented 73% of total loans to customers (December 31, 2017: 87%). 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. During 2018, the Republic of Azerbaijan displayed macroeconomic processes of an emerging market. Economic reforms undertaken by government have made a significant contribution to the economic sustainability of Azerbaijan. The monetary policy of the Central Bank of the Republic of Azerbaijan in 2018 was oriented towards achievement of price stability and shaping a favorable socio-economic environment for people and business activity by maintaining low and stable inflation.

During the year, inflation was stable at a low single-digit rate, the economic growth remained positively zoned, the exchange rate of the national currency was sustainable, positive trends emerged in the foreign sector, balance of payments surplus contributed to the increased strategic foreign currency reserves of the country.

Significant measures have been taken in taxation as well. To ensure more operative and transparent tax system many amendments were made to the Tax Code. As a result of enacted Law on amendments to the Tax Code signed in 2018, plenty of incentives were introduced to the Tax Code, such as exemptions for small and medium entrepreneurship, reduced tax rate introduced for the income of employees who are engaged to the employment in non-oil-gas and non-government for 7 years period, etc.

In January 2019, Standard & Poor's Financial Services LLC, international credit rating agency, affirmed the long and short-term foreign and local currency sovereign credit ratings on Azerbaijan at 'BB+/B'. The outlook on the long-term ratings is stable. The agency forecasts that Azerbaijan's economic growth will recover moderately but will still remain dependent on oil industry trends and public investments.

2 Operating Environment of the Company (Continued)

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. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Notes 5 and 29.

Financial instruments - key measurement terms. *Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is 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.

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.

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

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

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.

3 Significant Accounting Policies (Continued)

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

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.

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

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

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

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

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

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL.

The Company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 22 for a description of how the Company determines when a SICR has occurred. If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Companys definition of credit impaired assets and definition of default is explained in Note 22. The Note provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

3 Significant Accounting Policies (Continued)

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

Financial assets – derecognition. 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 risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC.

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

Cash and cash equivalents. Cash and cash equivalents 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 AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Loans and advances to customers. Loans and advances to customers are recorded when the Company advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Company classifies loans and advances to customers at amortised cost.

Impairment allowances are determined based on the forward-looking ECL models. Note 22 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

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.

Payable to Partners. The Company issues loans for a defined period and with interest rate to customers in order to acquire furniture and other home appliances from its partners. The cash price of goods is transferred directly to partners either at the loan origination date or at a later date. Payable to partners is stated at AC.

Debt securities in issue. Debt securities in issue include bonds issued by the Company. Debt securities are stated at AC.

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.

3 Significant Accounting Policies (Continued)

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The accounting reports of the Company are the basis for profit distribution and other appropriations. Azerbaijan legislation identifies the basis of distribution as the current year net profit.

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.

Fees integral to the effective interest rate include origination fees received or paid by the entity 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 FVTPL.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied for the AC.

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Company's performance. Such income includes fees for account maintenance, account servicing fees, account subscription fees, premium service package fees for servicing loans on behalf of third parties, etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Company satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements, as well as, commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses.

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 2018, the rate of exchange used for translating foreign currency balances denominated in United States dollars ("USD") was USD 1 = AZN 1.7000 (2017: USD 1 = AZN 1. 1.7001).

3 Significant Accounting Policies (Continued)

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:

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 22. The impact of the relevant economic variables on the PD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates. Such relationship (if statistically relevant for a given portfolio) is used to adjust marginal PD curves to make it more point-in-time (up to possible extent). PD is one event in time that can be reasonably linked with current or preceding macro parameters, which might be lagged. Macroeconomic function and overlay are used for the period of next 4 years as forecasts for longer horizon are not precise enough.

As process of recovery after default is scattered over a few years in changing economic conditions, the relationship between LGD and macro is usually very weak and not considered as material.

EAD parameter is driven by current gross book value and expected repayments, therefore no macro impact is used to this parameter.

The most significant forward looking assumptions that correlate with ECL level and their assigned weights were as follows at 31 December 2018:

Variable	Scenario	Assigned weight	Assumption for: 2019	2020	2021	2022
GDP Growth rate	Neutral	33.3%	113.5	112.3	111.2	110.0
	Optimistic	33.3%	116.6	118.1	119.6	121.1
	Pessimistic	33.3%	110.4	106.5	102.7	99.0

The assumptions and assigned weights were as follows at 1 January 2018:

Variable	Scenario	Assigned weight	Assumption for: 2018	2019	2020	2021
GDP Growth rate	Neutral	33.3%	115.0	113.3	111.6	109.9
	Optimistic	33.3%	117.0	118.4	119.8	121.1
	Pessimistic	33.3%	112.9	108.1	103.4	98.7

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

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Company compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Company considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Company identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 22.

Write-off policy. Financial assets are written-off, in whole or in part, when the Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery: liquidation or bankruptcy proceedings, fair value of collateral is less than the costs to repossess it or enforcement activities were completed.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 9 "Financial Instruments". The Company adopted IFRS 9, *Financial Instruments*, from 1 January 2018. The Company elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, *Financial Instruments: Disclosures*, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 3. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 29.

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

In Azerbaijani Manats	**Measurement category**		**Carrying value under IAS 39 - 31 December 2017**	**Effect of adopting IFRS 9**				**Carrying value under IFRS 9 - 1 January 2018**
				Reclassification		**Remeasurement**		
	IAS 39	**IFRS 9**		**Mandatory**	**Voluntary**	**ECL**	**Other**	
Cash and cash equivalents	L&R	AC	**170,848**	-	-	-	-	**170,848**
Receivables from payment providers	L&R	AC	**485,865**	-	-	-	-	**485,865**
Loans and advances to customers								
- Loans to corporate customers								
- Loans to SME	L&R	AC	509,179	-	-	(2,918)	-	506,261
- Loans to individuals								
- Consumer loans	L&R	AC	15,007,634			131,380		15,139,014
Deferred tax asset			190,710				(170,816)	19,894
Total loans and advances to customers			**15,707,523**	-	-	**128,462**	**(170,816)**	**15,665,169**

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

(a) Cash and cash equivalents

All classes of cash and cash equivalents as disclosed in Note 7 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018. The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

In Azerbaijani Manats	Provision under IAS 39 or IAS 37 at 31 Dec 2017	Effect Remeasurement from incurred to expected loss	Credit loss allowance under IFRS 9 at 1 January 2018
Loans and receivables measurement category			
- Loans and advances to customers	854,080	(128,462)	725,618

The following amended standards became effective for the Company from 1 January 2018, but did not have any material impact on the Company:

- 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 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- 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).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 9 - "Prepayment Features with Negative Compensation" (issued on 12 October 2017 and effective at the latest for annual periods beginning on or after 1 January 2019).
- Adoption of IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and 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).

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 2019 or later, and which the Company has not early adopted.

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 Company decided that it will apply the standard using the modified retrospective method, without restatement of comparatives.

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

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).

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 2018**	**31 December 2017**
Cash on hand	11,916	11,937
Bank balances payable on demand	182,651	158,911
Total cash and cash equivalents	**194,567**	**170,848**

7 Cash and Cash Equivalents (Continued)

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018. Refer to Note 22 for the description of the Company's credit risk grading system.

In Azerbaijani Manats	Bank balances payable on demand	Total
- Good	104,669	104,669
- Satisfactory	55,080	55,080
- Special monitoring	4,483	4,483
- Unrated	18,419	18,419
Total cash and cash equivalents, excluding cash on hand	**182,651**	**182,651**

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

The credit quality of cash and cash equivalents balances at 31 December 2017, was as follows:

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 ratings in the above table are based on Standard & Poor's ratings where available, or Moody's or Fitch rating converted to the nearest equivalent on the Standard & Poor's rating scale.

The published international rating (by Standard & Poor's) of Azerbaijan Republic is BB+ at 31 December 2018 (2017: BB+).

Interest rate analysis of cash and cash equivalents is disclosed in Note 22. Information on related party balances is disclosed in Note 27.

8 Loans and Advances to Customers

In Azerbaijani Manats	31 December 2018	31 December 2017
Gross carrying amount of loans and advances to customers at AC	24,224,922	16,370,893
Less credit loss allowance	(790,881)	(854,080)
Total carrying amount of loans and advances to customers at AC	**23,434,041**	**15,516,813**

8 Loans and Advances to Customers (Continued)

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2018 and 31 December 2017 are disclosed in the table below:

In Azerbaijani Manats	31 December 2018 Gross carrying amount	31 December 2018 Credit loss allowance	31 December 2018 Carrying amount	31 December 2017 Gross carrying amount	31 December 2017 Provision for loan impairment	31 December 2017 Carrying amount
Loans to corporate customers						
Loans to SME	478,090	(53,973)	424,117	509,179	-	509,179
Loans to individuals						
Mortgage loans	39,642	(124)	39,518	-	-	-
Consumer loans	23,692,318	(736,749)	22,955,569	15,861,714	(854,080)	15,007,634
Business loans	14,872	(35)	14,837	-	-	-
Total loans and advances to customers at AC	**24,224,922**	**(790,881)**	**23,434,041**	**16,370,893**	**(854,080)**	**15,516,813**

More detailed explanation of classes of loans to legal entities is provided below:

- Loans to SME – loans issued to small and medium-sized enterprises, where the Company defines these enterprises based on the number of employees and yearly turnover.

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

In Azerbaijani Manats	Credit loss allowance Stage 1 (12-months ECL)	Credit loss allowance Stage 2 (lifetime ECL for SICR)	Credit loss allowance Stage 3 (lifetime ECL for credit im-paired)	Credit loss allowance Total	Gross carrying amount Stage 1 (12-months ECL)	Gross carrying amount Stage 2 (lifetime ECL for SICR)	Gross carrying amount Stage 3 (lifetime ECL for credit im-paired)	Gross carrying amount Total
Loans to SMEs								
At 1 January 2018	**2,918**	**-**	**-**	**2,918**	**509,179**	**-**	**-**	**509,179**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(367)	-	53,314	**52,947**	(142,469)	-	142,469	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
New originated or purchased	426	-	-	**426**	180,621	-	-	**180,621**
Derecognised during the period	(505)	-	-	**(505)**	(211,710)	-	-	**(211,710)**
Other movements	(1,813)	-	-	**(1,813)**	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**(2,259)**	**-**	**53,314**	**51,055**	**(173,558)**	**-**	**142,469**	**(31,089)**
At 31 December 2018	**659**	**-**	**53,314**	**53,973**	**335,621**	**-**	**142,469**	**478,090**

8 Loans and Advances to Customers (Continued)

In Azerbaijani Manats	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Mortgage loans								
At 1 January 2018	-	-	-	-	-	-	-	-
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
New originated or purchased	124	-	-	124	39,642	-	-	39,642
Derecognised during the period	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**124**	**-**	**-**	**124**	**39,642**	**-**	**-**	**39,642**
At 31 December 2018	**124**	**-**	**-**	**124**	**39,642**	**-**	**-**	**39,642**

8 Loans and Advances to Customers (Continued)

In Azerbaijani Manats	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Consumer loans	**24,824**	**4,013**	**693,863**	**722,700**	**14,960,909**	**20,009**	**880,796**	**15,861,714**
At 1 January 2018								
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(304)	1,258	-	**954**	(7,722)	7,722	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1,026)	(2,091)	23,184	**20,067**	(51,488)	(8,892)	60,380	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	7	(325)	-	**(318)**	-	-	-	-
New originated or purchased	52,576	14,651	35,356	**102,583**	22,405,810	68,152	107,519	**22,581,481**
Derecognised during the period	(18,764)	(1,597)	(57,795)	**(78,156)**	(14,508,955)	(35,851)	(206,716)	**(14,751,522)**
Other movements	(3,443)	-	(31,081)	**(31,081)**	(63,431)	24,734	39,342	**645**
Total movements with impact on credit loss allowance charge for the period	**29,046**	**11,896**	**(26,893)**	**14,049**	**7,774,214**	**55,865**	**525**	**7,830,604**
At 31 December 2018	**53,870**	**15,909**	**666,970**	**736,749**	**22,735,123**	**75,874**	**881,321**	**23,692,318**

8 Loans and Advances to Customers (Continued)

In Azerbaijani Manats	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Business loans								
At 1 January 2018	-	-	-	-	-	-	-	-
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-	-	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	-	-	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	-	-	-	-
New originated or purchased	35	-	-	35	14,872	-	-	14,872
Derecognised during the period	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**35**	**-**	**-**	**35**	**14,872**	**-**	**-**	**14,872**
At 31 December 2018	**35**	**-**	**-**	**35**	**14,872**	**-**	**-**	**14,872**

Movements in the provision for loan impairment to individuals were as follows during 2017:

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**

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 22. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes to model assumptions, including changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models.

8 Loans and Advances to Customers (Continued)

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Company's maximum exposure to credit risk on these loans.

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2018:

In Azerbaijani Manats	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to SME				
- Excellent	335,621	-	-	335,621
- Good	-	-	-	-
- Satisfactory	-	-	-	-
- Special monitoring	-	-	142,469	142,469
- Default	-	-	-	-
Gross carrying amount	**335,621**	**-**	**142,469**	**478,090**
Credit loss allowance	(659)	-	(53,314)	(53,973)
Carrying amount	**334,962**	**-**	**89,155**	**424,117**

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2018:

In Azerbaijani Manats	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Mortgage loans				
- Excellent	39,642	-	-	39,642
- Good	-	-	-	-
- Satisfactory	-	-	-	-
- Special monitoring	-	-	-	-
- Default	-	-	-	-
Gross carrying amount	**39,642**	**-**	**-**	**39,642**
Credit loss allowance	(124)	-	-	(124)
Carrying amount	**39,518**	**-**	**-**	**39,518**
Consumer loans				
- Excellent	21,971,725	-	-	21,971,725
- Good	763,398	-	-	763,398
- Satisfactory	-	75,874	-	75,874
- Special monitoring	-	-	881,321	881,321
- Default	-	-	-	-
Gross carrying amount	**22,735,123**	**75,874**	**881,321**	**23,692,318**

8 Loans and Advances to Customers (Continued)

In Azerbaijani Manats	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Credit loss allowance	(53,871)	(15,909)	(666,969)	(736,749)
Carrying amount	**22,681,252**	**59,965**	**214,352**	**22,955,569**
Business loans				
- Excellent	14,872	-	-	14,872
- Good	-	-	-	-
- Satisfactory	-	-	-	-
- Special monitoring	-	-	-	-
- Default	-	-	-	-
Gross carrying amount	**14,872**	**-**	**-**	**14,872**
Credit loss allowance	(35)	-	-	(35)
Carrying amount	**14,837**	**-**	**-**	**14,837**

For description of the credit risk grading used in the tables above refer to Note 22.

Analysis by credit quality of loans outstanding at 31 December 2017 is disclosed 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 and advances to customers	**15,007,634**	**509,179**	**15,516,813**

The Company's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Company since the prior period. Description of collateral held for loans to corporate customers carried at amortised cost is as follows at 31 December 2018:

8 Loans and Advances to Customers (Continued)

In Azerbaijani Manats	Loans to SME	Total
Loans collateralised by:		
- residential real estate	89,155	89,155
Total	**89,155**	**89,155**
Unsecured exposures	334,963.00	334,963.00
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**424,118**	**424,118**

Description of collateral held for loans to individuals carried at amortised cost is as follows at 31 December 2018:

In Azerbaijani Manats	Mortgage loans	Consumer loans	Business loans	Total
Loans collateralised by:				
- residential real estate	39,518	-	-	39,518
- other assets	-	12,631,911	12,380	12,644,291
Total	**39,518**	**12,631,911**	**12,380**	**12,683,809**
Unsecured exposures	-	927,466	-	927,466
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**39,518**	**13,559,377**	**12,380**	**13,611,275**

Information about collateral for loans to corporate customers is as follows at 31 December 2017:

In Azerbaijani Manats	Loans to SME	Total
Loans collateralised by:		
- residential real estate	125,790	125,790
Total	**125,790**	**125,790**
Unsecured exposures	383,389	383,389
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**509,179**	**509,179**

8 Loans and Advances to Customers (Continued)

Information about collateral of loans to individuals carried at amortised cost is as follows at 31 December 2017:

In Azerbaijani Manats	**Consumer loans**	**Total**
Loans collateralised by:		
- other assets	14,798,209	14,798,209
Total	**14,798,209**	**14,798,209**
Unsecured exposures	209,425	209,425
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**15,007,634**	**15,007,634**

Other assets mainly include equipment. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, 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 on credit impaired assets at 31 December 2018 is as follows.

	Over-collateralised assets		**Under-collateralised assets**	
In Azerbaijani Manats	**Carrying value of the assets**	**Value of collateral**	**Carrying value of the assets**	**Value of collateral**
Credit impaired assets:				
Loans to corporate customers carried at AC				
Loans to SME	142,469	550,000	335,621	-
Loans to individuals carried at AC				
Mortgage loans	39,642	117,000	-	-
Consumer loans	1,967,508	3,192,870	21,724,810	10,675,697
Business loans	8,679	22,000	6,193	3,724

8 Loans and Advances to Customers (Continued)

The effect of collateral at 31 December 2017 is presented for all loans, whether impaired or not, as follows:

In Azerbaijani Manats	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Credit impaired assets:				
Loans to corporate customers carried at AC				
Loans to SME	125,790	550,000	383,389	66,000
Loans to individuals carried at AC				
Consumer loans	1,220,528	2,090,858	13,787,107	7,692,072

The Company obtains collateral valuation at the time of granting. The values of collateral considered in this disclosure are after a valuation haircut applied to consider liquidity and quality of the pledged assets. The Company mainly lends to individuals to purchase furniture and other home appliances, which is pledged as collateral at the same time for the loan and this constitutes majority of collateral portfolio.

Refer to Note 25 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 22. Information on related party balances is disclosed in Note 27.

9 Properties, Equipment and Intangible Assets

In Azerbaijani Manats	Premises	Computer and equipment	Vehicles	Intangible assets	Total
Cost at 1 January 2017	6,500,000	532,599	33,920	28,928	**7,095,447**
Accumulated depreciation	(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 2017	**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**
Additions	-	31,177	-	-	**31,177**
Disposals	-	(17,307)	-	-	**(17,307)**
Depreciation/amortization charge	(263,893)	(108,492)	-	(3,143)	**(375,528)**
Depreciation charge of disposal	-	17,307	824	-	**18,131**
Carrying amount at 31 December 2018	**4,966,371**	**289,988**	**-**	**22,664**	**5,279,023**
Cost at 31 December 2018	6,500,000	568,043	33,920	31,432	**7,133,395**
Accumulated depreciation/amortization	(1,533,629)	(278,055)	(33,920)	(8,768)	**(1,854,372)**
Carrying amount at 31 December 2018	**4,966,371**	**289,988**	**-**	**22,664**	**5,279,023**

Intangible assets at 31 December 2018 and 2017 represent software license and modules used for the purposes of performing banking business.

10 Other Assets

In Azerbaijani Manats	31 December 2018	31 December 2017
Receivables from payment providers	676,665	485,865
Other	-	29,657
Total financial assets	**676,665**	**515,522**
Deferred expense	60,433	61,294
Total other assets	**737,098**	**576,816**

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

The credit quality of receivables from payment providers balances based on credit risk grades at 31 December 2018 is good. Refer to Note 22 for the description of the Company's credit risk grading system.

For the purpose of ECL measurement receivables from payment providers balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Company did not recognise any credit loss allowance for cash and cash equivalents. Refer to Note 22 for the ECL measurement approach.

11 Debt Securities in Issue

In Azerbaijani Manats	2018	2017
Bonds issued on domestic market	2,791,816	-
Total debt securities in issue	**2,791,816**	-

On 08 October 2018 and 03 December 2018 the Company has issued corporate unsecured bonds in amount of AZN 2,000,000, 2000 bonds with face value of AZN 1000 and in amount of AZN 1,000,000, 1000 bonds with face value of AZN 1,000. These issues was registered with the State Committee for Securities under identification code AZ2001020604 and AZ2002020603 consecutively. Bonds have 12 months of maturity with an annual coupon rate of 10.5%, payable every other month. AzFinance Investment Company was performing as the underwriter for the total issue. Outstanding balance on corporate bonds include principal amount, and accrued interest.

Refer to Note 25 for the disclosure of the fair value of each class of debt securities in issue. Interest rate analyses of debt securities in issue are disclosed in Note 22.

12 Loans from Banks

In Azerbaijani Manats	Maturity	Nominal interest rate %	31 December 2018	31 December 2017
International Bank of Azerbaijan	04 October 2019	13%	3,007,150	-
Pasha Bank OJSC	16 September 2020	13%	2,380,636	1,576,657
Pasha Bank OJSC	29 April 2020	13%	1,775,656	-
Pasha Bank OJSC	24 December 2019	13%	1,500,500	-
Pasha Bank OJSC	29 April 2020	13%	198,211	-
Pasha Bank OJSC	17 September 2019	13%	802,925	-
Pasha Bank OJSC	22 May 2018	12%	-	516,868
Pasha Bank OJSC	13 September 2018	12%	-	1,001,466
Kapital Bank OJSC	30 June 2018	12%	-	1,123,146
Kapital Bank OJSC	15 December 2019	12%	-	556,161
Kapital Bank OJSC	27 December 2019	12%	-	2,536,435
Total loan from banks			**9,665,078**	**7,310,733**

The above balances include principal amounts and accrued interest payables as at 31 December 2018 and 2017. Accrued interest payable as at 31 December 2018 was AZN 30,740 (2017: AZN 39,858).

Interest rates for the borrowings represent market rates for the years ended 31 December 2018 and 2017. The carrying value of the term borrowings approximates fair value at 31 December 2018 and 31 December 2017.

No financial and non-financial loan covenants have been stipulated by the aforementioned loan agreements.

Geographical, currency, maturity and interest rate analyses of term borrowings are disclosed in Note 22.

13 Payables to Partners

In Azerbaijani Manats	31 December 2018	31 December 2017
Payables to "Embawood" LLC	366,473	34,497
Payables to other partners	134,477	73,200
Total payables to partners	**500,950**	**107,697**

14 Charter Capital

As at December 31, 2018 and 2017 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, 2018 and 2017.

15 Other Liabilities

In Azerbaijani Manats	2018	2017
Payable to the employees	122,430	124,667
Other	35,811	23,493
Total financial other liabilities	**158,241**	**148,160**
Deferred interest income	1,840,254	1,527,542
Taxes payable, other than income tax	14,974	14,562
Other	33,809	39,853
Total other liabilities	**2,047,278**	**1,730,117**

Refer to Note 25 for disclosure of the fair value of financial liabilities. Information on related party balances is disclosed in Note 27.

16 Interest Income and Expense

In Azerbaijani Manats	2018	2017
Interest income		
Loans and advances to customers at AC	5,782,039	4,380,527
Total interest income calculated using the effective interest	**5,782,039**	**4,380,527**
Total interest income	**5,782,039**	**4,380,527**
Interest and other similar expense		
Loans from banks	1,196,587	1,180,847
Debt securities in issue	66,445	-
Total interest and other similar expense	**1,263,032**	**1,180,847**
Net interest income	**4,519,007**	**3,199,680**

17 Fee and Commission Income and Expense

In Azerbaijani Manats	2018	2017
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	1,102,914	582,451
- Other	112,033	160,306
Total fee and commission income	**1,214,947**	**742,757**
Fee and commission expense		
Fee and commission expense not relating to financial instruments at fair value through profit or loss		
- Pay point operations	190,902	140,924
- Other	35,420	38,489
Total fee and commission expense	**226,322**	**179,413**
Net fee and commission income	**988,625**	**563,344**

18 Administrative and Other Operating Expenses

In Azerbaijani Manats	2018	2017
Staff costs	1,797,360	2,122,041
Depreciation and amortization	375,528	376,791
Repair and maintenance	109,984	104,449
Agency costs	215,417	178,105
Tax expense	53,862	66,244
Rent expenses	95,841	24,000
Professional services	61,141	46,840
Communication expenses	46,469	48,190
Advertisement expenses	256,389	1,934
Other expenses	128,378	103,768
Total administrative and other operating expenses	**3,140,369**	**3,072,362**

Included in staff costs are social security contributions in the amount of AZN 330,127 (2017: AZN 382,938).

19 Income Taxes

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

Income tax expense comprises the following:

In Azerbaijani Manats	2018	2017
Current tax	449,772	109,931
Deferred tax	25,499	27,927
Income tax expense for the year	**475,271**	**137,858**

(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 2018 and 2017 income is 20%. A reconciliation between the expected and the actual taxation charge is provided below.

In Azerbaijani Manats	2018	2017
Profit before tax	**2,302,564**	**706,858**
Theoretical tax charge at statutory rate of 20%	460,513	141,372
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Other	-	(6,384)
- Non-deductible expenses	14,758	2,870
Income tax expense for the year	**475,271**	**137,858**

(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% (2017: 20%).

In Azerbaijani Manats	1 January 2018	Credited to profit or loss	Charged directly to equity (Adoption of IFRS 9)	31 December 2018
Tax effect of deductible temporary differences				
Loans and advances to customers	190,710	(19,894)	(170,816)	-
Property, equipment and intangible	(83,632)	(5,605)	-	(89,237)
Other liabilities	44,005	-	-	44,005
Net deferred tax liability	**151,083**	**(25,499)**	**(170,816)**	**(45,232)**

The tax effect of the movements in the temporary differences for the year ended 31 December 2017 were:

In Azerbaijani Manats	1 January 2017	Credited to profit or loss	31 December 2017
Tax effect of deductible temporary differences			
Loans and advances 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**

20 Dividends

In Azerbaijani Manats	2018 Ordinary	2017 Ordinary
Dividends payable at 1 January 2018		-
Dividends declared during the year	450,000	600,000
Dividends paid during the year	(450,000)	(600,000)
Dividends payable at 31 December 2017	-	-

All dividends are declared and paid in Azerbaijani Manats.

21 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person – or group of persons – who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Board of Directors of the Company.

The Company is organised on the basis of two main business segments:

- Retail – consumer loans and mortgages;
- Corporate – loan and other credit facilities.

The CODM evaluates performance of each segment based on profit before tax.

Segment information for the reportable segments for the year ended 31 December 2018 is set out below:

In Azerbaijani Manats	Retail	Corporate	Total
2018			
External revenues:			
- Interest income	5,706,954	75,085	5,782,039
- Fee and commission income	1,210,697	4,250	1,214,947
Total revenues	**6,917,651**	**79,335**	**6,996,986**
Interest expense	(1,248,711)	(14,321)	(1,263,032)
Credit loss allowance	(11,949)	(53,314)	(65,263)
Fee and commission expense	(223,756)	(2,566)	(226,322)
Foreign exchange translation gains less losses	565	-	565
Administrative and other operating expenses	(3,104,762)	(35,607)	(3,140,369)
Segment result	**2,329,038**	**(26,473)**	**2,302,565**

21 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2017 is set out below:

In Azerbaijani Manats	Retail banking	Corporate banking	Total
2017			
External revenues:			
- Interest income	4,296,797	83,730	4,380,527
- Fee and commission income	740,159	2,598	742,757
Total revenues	**5,036,956**	**86,328**	**5,123,284**
Interest expense	(1,160,950)	(19,897)	(1,180,847)
Recovery of loan impairment	87,317	1,497	88,814
Fee and commission expense	(176,390)	(3,023)	(179,413)
Foreign exchange translation gains less losses	(800)	-	(800)
Losses on initial recognition of assets at rates below market	(71,818)	-	(71,818)
Administrative and other operating expenses	(3,020,592)	(51,770)	(3,072,362)
Segment result	**693,723**	**13,135**	**706,858**

22 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 and off-balance sheet credit-related commitments.

The Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Company's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

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.

22 Financial Risk Management (Continued)

Limits. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Loan applications originated with 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. In order to monitor exposure to credit risk, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Board of Directors.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Company applies two approaches – an Internal Risk-Based (IRB) rating system or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	Corresponding internal ratings	Corresponding ratings of external international rating agencies (S&P)
Excellent	0	AAA to BB+
Good	1	BB to B+
Satisfactory	2 - 3	B, B-
Special monitoring	4	CCC+ to CC-
Default	5 - 9	C, D-I, D-II

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

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

The IRB system is designed internally and ratings are estimated by management. Various credit-risk estimation techniques are used by the Company depending on the class of the asset. There are three commonly used types of such systems:

- *Model-based* – In this system, credit risk ratings are assigned by internally developed statistical models with the limited involvement of credit officers. Statistical models include qualitative and quantitative information that shows the best predictive power based on historical data on defaults.
- *Expert judgement-based* – In this system, credit risk ratings are assigned subjectively by experienced credit officers based on internally developed methodology and different qualitative and quantitative factors. This approach is based on expert methodology and judgements rather than on sophisticated statistical models.
- *Hybrid* – This rating system is a combination of the two systems above. It is developed by using historical data combined with expert input.

The Company applies IRB systems for measuring credit risk for the following financial assets: consumer, corporate loans and SMEs.

The rating models are regularly reviewed by the Credit Risk Department, backtested on actual default data and updated, if necessary. Despite the method used, the Company regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

22 Financial Risk Management (Continued)

Expected credit loss (ECL) measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Company: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

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

In order to calculate ECL an institution has to be able to determine the probability of default in a lifetime horizon (*Lifetime ECL*) for exposures in stage 2 and in a one-year horizon (*12-month ECL*) for those in stage 1. For the purpose of the IFRS9 implementation, the estimation approach was applied. Migration matrices were used for the entire portfolio to model transitions between final rating groups 0, 1, 2, 3 and default (DPD rating > 3) which are "states" in the Markov chain method.

One of the key requirements of IFRS9 is inclusion of forward looking components. Usually, this is interpreted as necessity to adjust the estimates along with expected evolution of economy (so called macroeconomic overlay). The comparatively easy and convenient way to include such adjustment to PD lifetime estimates is usage of regression models that explain behaviour of historical defaults rates versus selected macroeconomic variables. Such relationship (if statistically relevant for a given portfolio) should be used to adjust marginal PD curves thus making it more point-in-time (up to possible extent).

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

- the borrower is more than 90 days past due on its contractual payments;
- the borrower meets the unlikeliness-to-pay criteria listed below:
  - the Company was forced to restructure the debt;
  - the borrower is deceased;
  - the borrower is insolvent or it is becoming likely that the borrower will be insolvent;
  - the loans originated at a deep discount that reflects the incurred credit losses.

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

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis and on a portfolio basis. For loans issued to corporate, to individuals and other financial assets, SICR is assessed either on a portfolio basis or an individual basis, depending on the existence of scoring models. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Company's Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Company considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met:

- 30 days past due;
- award of risk grade "Special monitoring";
- SICR based on relative threshold based on internal ratings.
- inclusion of loan into a watch list according to the internal credit risk monitoring process.

22 Financial Risk Management (Continued)

- Relative threshold defined on the basis of a portfolio for products without existing scoring models: the Company regularly monitors segments with increased credit risk (regions of higher credit risk, failed products, products on which issuing was stopped) and considers such portfolios to have a SICR.

Level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Company monitors whether that indicator continues to exist or has changed.

The Company measures ECL on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio. This approach stratifies the loan pool into homogeneous segments based on borrower-specific information, such as delinquency status, the historical data on losses, location and other predictive information.

When assessment is performed on a portfolio basis, the Company determines the staging of the exposures and measures the loss allowance on a collective basis. The Company analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (such as wholesale or retail), product type, credit risk rating, date of initial recognition, term to maturity, the quality of collateral and loan to value (LTV) ratio. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Company uses different statistical approaches depending on the segment and product type to calculated lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data.

22 Financial Risk Management (Continued)

LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement is calculation of LGD on a portfolio basis based on recovery statistics; with details below:

- In the case of LGD modelling the targeted variable is a lifetime probability of reaching by a defaulted exposure two extreme (absorbing) states – repayment or write off. LGD is just a probability weighted average loss conditional on two possible ultimate states – i.e.: 0% loss in case of repayment and 100% loss in case of write off which is identified as rating 9. As a consequence, the LGD parameter is just probability of migration to the state 9. Therefore, migration matrices approach was employed where ratings 4 - 9 were treated as separate states rather than grouped into one default state. In this method rating 9 is assumed to be an absorbing state and defaults with ratings 4-8 will have their respective LGD values estimated as a lifetime transition into state 9.
- The rationale behind the treatment of long remaining exposure values as fully lost comes from the fact that all standard recovery options should be already exercised and should already have their reflection in data that are basis for LGD estimation.

Refer to the ranking table in above *Credit risk grading system* section.

The result of the LGD estimation is as follows for 2018 and 2017:

Rating	LGD (2018)	LGD (2017)
4	31.13%	33.25%
5	37.42%	41.02%
6	46.90%	51.70%
7	67.46%	77.70%
8	83.77%	100%
9	100%	

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. The Company identified certain key economic variables that correlate with developments in credit risk and ECLs. Forecasts of economic variables (the "base economic scenario") are provided by the Company 's economics team on a quarterly basis and provide the best estimate of the expected macro-economic development over the next four years. Refer to the Note 4.

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. The Company diversifies its loan portfolio concluding new agreements with different partners.

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.

22 Financial Risk Management (Continued)

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

	At 31 December 2018			At 31 December 2017		
In Azerbaijani Manats	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
AZN	24,304,205	(12,957,844)	11,346,361	16,201,865	(7,556,590)	8,635,275
USD	628		628	628	-	628
EUR	440		440	690	-	690
Total	**24,305,273**	**(12,957,844)**	**11,347,429**	**16,203,183**	**(7,556,590)**	**8,636,593**

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 2018	At 31 December 2017
In Azerbaijani Manats	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 20% (2017: strengthening by 20%)	126	126
US Dollar weakening by 20% (2017: weakening by 20%)	(126)	(126)
EUR strengthening by 20% (2017: strengthening by 20%)	88	138
EUR weakening by 20% (2017: weakening by 20%)	(88)	(138)
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.

22 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 2018						
Total financial assets	3,235,393	5,105,019	13,676,231	1,417,398	871,232	24,305,273
Total financial liabilities	(1,644,977)	(2,381,055)	(8,406,142)	(525,670)	-	(12,957,844)
Net interest sensitivity gap at 31 December 2018	**1,590,416**	**2,723,964**	**5,270,089**	**891,728**	**871,232**	**11,347,429**
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**

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.	2018 AZN	2017 AZN
Assets		
Loans and advances to customers	28%-34%	32-34%
Liabilities		
Loans from banks	12-19%	12-19%
Debt securities in issue	10.5%	-

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, 2018 and 2017, 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.

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.

22 Financial Risk Management (Continued)

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 2018 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 2018 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	194,567	-	-	-	194,567
Loans and advances to customers	3,266,968	5,196,620	15,841,497	1,588,225	25,893,310
Other financial assets	676,665	-	-	-	676,665
Total	**4,138,200**	**5,196,620**	**15,841,497**	**1,588,225**	**26,764,542**
Liabilities					
Loans from banks	(974,943)	(1,989,508)	(6,775,440)	(539,983)	(10,279,874)
Debt securities	(278,739)	(613,847)	(2,033,042)	-	(2,925,628)
Payables to "Embawood" LLC	(366,473)	-	-	-	(366,473)
Payables to other partners	(134,477)	-	-	-	(134,477)
Total potential future payments for financial obligations	**(1,754,632)**	**(2,603,355)**	**(8,808,482)**	**(539,983)**	**(13,706,452)**
Liquidity gap arising from financial instruments	**2,383,568**	**2,593,265**	**7,033,015**	**1,048,242**	**13,058,090**

22 Financial Risk Management (Continued)

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 and advances 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)
Total potential future payments for financial obligations	**(774,026)**	**(1,324,115)**	**(3,709,560)**	**(2,683,858)**	**(8,491,559)**
Liquidity gap arising from financial instruments	**2,100,910**	**2,447,479**	**6,072,125**	**(2,033,890)**	**8,586,624**

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 2018					
Financial assets	4,106,625	5,105,019	13,676,231	1,417,398	24,305,273
Financial liabilities	(1,644,977)	(2,381,055)	(8,406,142)	(525,670)	(12,957,844)
Net liquidity gap based on expected maturities	**2,461,648**	**2,723,964**	**5,270,089**	**891,728**	**11,347,429**
At 31 December 2017					
Financial assets	2,764,126	3,766,382	9,077,689	594,986	**16,203,183**
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**	**2,633,315**	**5,901,003**	**(1,848,800)**	**8,636,593**

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.

22 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.

23 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.

24 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.

Taxation. Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management interpretation of such legislation and changes may be challenged by the relevant authorities. As such, additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three years including the year of review. Management believes that as of 31 December 2018 its interpretation of the relevant legislation is appropriate and that the Company's tax position will be sustained.

25 Fair Value Disclosures

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

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

25 Fair Value Disclosures (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

In Azerbaijani Manats	31 December 2018 Level 2 fair value	31 December 2018 Carrying value	31 December 2017 Level 2 fair value	31 December 2017 Carrying value
ASSETS				
Loans and advances to customers at AC				
- Corporate loans	424,117	424,117	509,179	509,179
- Loans to individuals -consumer loans	22,955,569	22,955,569	15,007,634	15,007,634
- Loans to individuals – entrepreneurs	14,837	14,837		
- Mortgage loans	39,518	39,518		
Cash and cash equivalents				
- Cash and cash equivalents	194,567	194,567	170,848	170,848
Other financial assets:				
- Receivables from counterparties	676,665	676,665	485,865	485,865
- Other	-	-	29,657	29,657
TOTAL	**24,305,273**	**24,305,273**	**16,203,183**	**16,203,183**

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

In Azerbaijani Manats	31 December 2018 Level 2 fair value	31 December 2018 Carrying value	31 December 2017 Level 2 fair value	31 December 2017 Carrying value
FINANCIAL LIABILITIES				
Loans from banks				
- Loans from banks	9,665,078	9,665,078	7,310,733	7,310,733
Debt securities in issue				
- Bonds issued on domestic market	2,791,816	2,791,816	-	-
Payables to Partners				
- Payables to "Embawood" LLC	366,473	366,473	34,497	34,497
- Payables to other partners	134,477	134,477	73,200	73,200
Other financial liabilities	158,241	158,241	148,160	148,160
TOTAL	**13,116,085**	**13,116,085**	**7,566,590**	**7,566,590**

The carrying amounts of cash and cash equivalents and payables to partners 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.

25 Fair Value Disclosures (Continued)

The fair value of loans and advances to customers, loans from banks and Debt securities in issue 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.

26 Presentation of Financial Instruments by Measurement Category

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

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

In Azerbaijani Manats	AC	Total
ASSETS		
Cash and cash equivalents		
Loans and advances to customers		
- Loans to SME	424,117	424,117
- Mortgage loans	39,518	39,518
- Consumer loans	22,970,406	22,970,406
Other financial assets:		
- Trade receivables	676,665	676,665
TOTAL FINANCIAL ASSETS	**24,110,706**	**24,110,706**

For the purposes of measurement at 31 December 2017, IAS 39 "Financial Instruments: Recognition and Measurement", classified financial assets into the following categories: (a) L&R; (b) AFS financial assets; (c) financial assets HTM and (d) financial assets at FVTPL ("FVTPL"). Financial assets at FVTPL had two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

At 31 December 2017, all financial assets fall within the loan and receivable category.

All financial liabilities are carried at amortized cost.

27 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 2018, the outstanding balances with related parties were as follows:

In Azerbaijani Manats	Key management personnel	Entities under common control
Loans and advances to customers	22,734	155,000
Agency costs	-	366,473
Other liabilities	13,373	1,617,999

27 Related Party Transactions (Continued)

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

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

Included in the statement of profit or loss and other comprehensive income for the years ended December 31, 2018 and 2017 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	-	215,417	-
Rent expense	-	83,721	6,120
Business trip expense	666	-	-

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

Key management compensation is presented below:

	2018	2017
In Azerbaijani Manats	Expense	Expense
Short-term employee benefits	377,319	402,852

28 Events after the Reporting Period

During the period from 01 January 2019 till approval date of these financial statements the Company repaid AZN 1,512,735 to Pasha Bank OJSC and AZN 3,030,000 to International Bank of Azerbaijan OJSC.

The company has issued corporate unsecured bonds in amount of AZN 2,000,000, 2000 bonds with face value of AZN 1000 under identification code AZ2003020602. These issues was registered with the State Committee for Securities.

On 27 Februray 2019, Pasha Bank OJSC provided credit line in amount of AZN 2,000,000 to the Company for 12 months period, with 11% annual interest rate.

29 Accounting Policies Applicable before 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9, are as follows.

Financial instruments – key measurement terms. Depending on their classification, financial instruments are carried at fair value, or amortised cost as described below.

Loans and advances to customers. Loans and advances to customers were carried at AC and impairment losses were recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. If the Company determined that no objective evidence exists that

29 Accounting Policies Applicable before 1 January 2018 (Continued)

impairment was incurred for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics, and collectively assessed them for impairment.

The primary factors that the Company considered in determining whether a financial asset was impaired were its overdue status and realisability of related collateral, if any. The following other principal criteria were also used to determine whether there was objective evidence that a credit loss has occurred:

- any instalment was overdue and the late payment could not be attributed to a delay caused by the settlement systems;
- the borrower experienced a significant financial difficulty as evidenced by the borrower's financial information that the Company obtained;
- the borrower considered bankruptcy or a financial reorganisation;
- there was an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impacted the borrower; or
- the value of collateral significantly decreased as a result of deteriorating market conditions.

For the purposes of a collective evaluation of credit loss, financial assets were grouped on the basis of similar credit risk characteristics. Those characteristics were relevant to the estimation of future cash flows for groups 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 were collectively evaluated for credit loss, were 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 would become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience was 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 AC were renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment were measured using the original effective interest rate before the modification of terms. The renegotiated asset were then derecognised and a new asset were recognised at its fair value only if the risks and rewards of the asset substantially changed. This were 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 credit loss decreases and the decrease could 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 was reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets were written off against the related credit loss allowance after all the necessary procedures to recover the asset had been completed and the amount of the loss had been determined. Subsequent recoveries of amounts previously written off were credited to credit loss account in profit or loss for the year.

Income and expense recognition. Interest income and expense are recorded 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.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for

29 Accounting Policies Applicable before 1 January 2018 (Continued)

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.