TBC Kredit
Non-bank Credit Organization
Limited Liability Company
Financial Statements

for the year ended 31 December 2018

and Independent Auditors' Report

Contents

KPMG Audit Azerbaijan LLC
Port Baku South Towers,
12th floor, 153 Neftchilar Avenue, Baku,
AZ1010, Azerbaijan
Telephone +994 (12) 404 8910
Fax +994 (12) 404 8914
Internet www.kpmg.az

Independent Auditors' Report

To the Shareholders and the Board of Directors of "TBC Kredit" Limited Liability Company

Opinion

We have audited the financial statements of TBC Kredit Non-bank Credit Organization Limited Liability Company ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of 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).

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 3 (t) to the financial statements, which describes that the comparative information presented as at and for the year ended 31 December 2017 has been restated. Our opinion is not modified in respect of this matter.

Other Matter Relating to Comparative Information

The financial statements of the Company as at and for the years ended 31 December 2017 and 31 December 2016 (from which the statement of financial position as at 1 January 2017 has been derived), excluding the adjustments described in Note 3 (t) to the financial statements were audited by other auditors who expressed an unmodified opinion on those financial statements on 27 April 2018.

As part of our audit of the financial statements as at and for the year ended 31 December 2018, we audited the adjustments described in Note 3 (t) that were applied to restate the comparative information presented as at and for the year ended 31 December 2017 and the statement of financial position as at 1 January 2017. We were not engaged to audit, review, or apply any procedures to the financial statements for the years ended 31 December 2017 or 31 December 2016 (not presented herein) or to the statement of financial position as at 1 January 2017, other than with respect to the adjustments described in Note 3 (t) to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 3 (t) are appropriate and have been properly applied.

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.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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.

The engagement partner on the audit resulting in this independent auditors' report is:

Andrey Kouznetsov
"KPMG Audit Azerbaijan" LLC
Baku, Azerbaijan
5 June 2019

	Notes	2018 AZN'000	2017* AZN'000 (restated)
Interest income calculated using the effective interest method	6	3,753	4,214
Other interest income	6	40	-
Interest expense	6	(1,663)	(2,120)
Net interest income		**2,130**	**2,094**
Fee and commission expense	7	(156)	(53)
Net foreign exchange loss		-	(72)
Other operating income		18	30
Operating income		**1,992**	**1,999**
Impairment recovery on debt financial instruments		3,415	4,617
Impairment losses for assets held for sale	13	(338)	-
Personnel expenses	8	(2,193)	(2,028)
Other general administrative expenses	9	(911)	(953)
Profit before income tax		**1,965**	**3,635**
Income tax benefit/(expense)	10	(82)	(125)
Total comprehensive income for the year		**1,883**	**3,510**

*The Company has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).

The financial statements as set out on pages 6 to 58 were approved by management on 5 June 2019 and were signed on its behalf by:

Mr. Spartak Tetrashvili
General Director

Mr. Chingiz Abdullayev
Chief Accountant

	Notes	2018 AZN'000	2017* AZN'000 (restated)	2016 AZN'000 (restated)
ASSETS				
Cash and cash equivalents	11	192	1,263	2,015
Loans to customers	14	17,087	21,438	20,288
Finance leases	15	850	-	-
Current tax asset		213	253	-
Assets held for sale	13	328	499	400
Property and equipment	16	115	159	228
Intangible assets	16	70	83	116
Deferred tax asset	10	606	565	467
Other financial assets	12	4,020	2,578	1,889
Other assets		66	85	66
Total assets		**23,547**	**26,924**	**25,469**
LIABILITIES				
Due to banks	17	8,468	2,337	2,022
Term borrowings	18	3,493	9,854	10,009
Debt securities	19	3,434	8,563	7,109
Subordinated debt		-	-	3,552
Current tax liability		-	-	34
Other financial liabilities		85	66	96
Other liabilities	20	209	238	291
Total liabilities		**15,689**	**21,058**	**23,113**
EQUITY				
Charter capital	21	8,453	8,453	8,453
(Accumulated losses)/Retained earnings		(595)	(2,587)	(6,097)
Total equity		**7,858**	**5,866**	**2,356**
Total liabilities and equity		**23,547**	**26,924**	**25,469**

*The Company has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).

Mr. Spartak Tetrashvili
General Director

Mr. Chingiz Abdullayev
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2018 AZN'000	2017 AZN'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		5,065	5,290
Interest paid		(1,530)	(2,090)
Fee and commission paid		(156)	(53)
Other operating income received		18	29
Personnel expenses paid		(2,310)	(2,021)
Administrative and other operating expenses paid		(826)	(794)
Cash flows from operating activities before changes in operating assets and liabilities		**261**	**361**
Changes in operating assets and liabilities			
Net decrease in loans and advances to customers		6,462	1,750
Net increase in finance leases		(869)	-
Net change in other operating assets and liabilities		(1,346)	(863)
Net cash from operating activities before income tax is paid		**4,508**	**1,248**
Income tax paid		(81)	(511)
Net cash from operating activities		**4,427**	**737**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of premises and equipment	16	(14)	(33)
Proceeds from sale of premises and equipment		26	-
Acquisition of intangible assets	16	(17)	(2)
Net cash used in investing activities		**(5)**	**(35)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	18	-	3,400
Repayment of borrowings	18	(6,444)	(3,224)
Proceeds from debt securities issued	19	-	1,833
Repayment of debt securities issued	19	(5,102)	-
Proceeds from resident banks	17	15,626	1,043
Repayment to resident banks	17	(9,573)	(731)
Repayment of subordinate debt		-	(3,400)
Net cash used in financing activities		**(5,493)**	**(1,079)**
Effect of exchange rate changes on the balance of cash and cash equivalents		-	(375)
Net decrease in cash and cash equivalents		**(1,071)**	**(752)**
Cash and cash equivalents at the beginning of the year		1,263	2,015
Cash and cash equivalents at the end of the year		**192**	**1,263**

Mr. Spartak Tetrashvili
General Director

Mr. Chingiz Abdullayev
Chief Accountant

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The statement of cash flows is to be read in conjunction with the notes to, and forming part of, financial statements.

AZN'000	Charter capital	Retained earnings (accumulated losses)	Total equity
Balance as at 1 January 2017, as previously reported	8,453	(5,373)	3,080
Correction of errors (Note 3 (t))	-	(724)	(724)
Balance as at 1 January 2017, (restated)	8,453	(6,097)	2,356
Total comprehensive income			
Profit for the year, as restated	-	3,510	3,510
Total comprehensive income for the year	**-**	**3,510**	**3,510**
Balance as at 31 December 2017	**8,453**	**(2,587)**	**5,866**
Balance as at 1 January 2018	**8,453**	**(2,587)**	**5,866**
Impact of adopting IFRS 9 as at 1 January 2018 (Note 5)	-	109	109
Balance as at 1 January 2018, (restated)*	**8,453**	**(2,478)**	**5,975**
Total comprehensive income			
Profit for the year	-	1,883	1,883
Total comprehensive income for the year	**-**	**1,883**	**1,883**
Balance as at 31 December 2018	**8,453**	**(595)**	**7,858**

*The Company has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).

Mr. Spartak Tetrashvili
General Director

Mr. Chingiz Abdullayev
Chief Accountant

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

"TBC Kredit Non-bank Credit Organization" Limited Liability Company (the "Company") was incorporated and domiciled in the Republic of Azerbaijan. The company is a limited liability company and was set up in accordance with Azerbaijan regulations.

The Company was founded as a non-bank credit organization on 7 December 1999 as Shore Overseas Azerbaijan and re-registered on 7 April 2006 as "SOA Kredit" Limited Liability Company, then on 28 July 2008 as "TBC Kredit Non-bank Credit Organization" Limited Liability Company with the state registration number 1400233171 (TIN) which was registered by Baku city Tax Department of the Ministry of Tax of the Republic of Azerbaijan on the state registration unit of Commercial legal entities.

The principal activity of the Company is commercial lending operations within the Republic of Azerbaijan. The activities of the Company are regulated by the Financial Markets Supervision Authority ("FIMSA") and business functions are performed under the non-bank credit organization's license for limited banking operations issued by the Central Bank of Azerbaijan Republic ("CBAR"). The legal address of the Company is: 71/77 28 May str., Baku, Azerbaijan.

As at 31 December 2018 the Company had 8 branches (2017: 5 branches). The Parent of the Company is Georgia based JSC TBC Bank who owns 100% of the Company's charter capital.

The Company has no ultimate controlling party, as the Parent Company's shares are publicly traded.

(b) Business environment

The Company's operations are primarily located in Azerbaijan. Consequently, the Company is exposed to the economic and financial markets of Azerbaijan, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Azerbaijan. In addition, recent depreciation of the Azerbaijani Manat and continuously low level of oil prices have increased the level of uncertainty in business environment.

The financial statements reflect management's assessment of the impact of the Azerbaijani business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

This is the first set of the Company's annual financial statements to which IFRS 9 *Financial Instruments* has been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

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

AZN is also the presentation currency for the purposes of these financial statements. Financial information presented in AZN is rounded to the nearest thousand except when otherwise stated.

(d) Use of estimates and judgments

In preparing these financial statements, management has made judgement, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Applicable to 2018 only:
  - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(d)(i).
  - establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.
- Applicable to 2018 and 2017
  - Classification of assets held for sale – Note 13.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

- Applicable to 2018 only
  - impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4.
- Applicable to 2018 and 2017
  - impairment of financial instruments – Note 14.
  - estimates of fair values of financial assets and liabilities – Note 26
  - impairment of non-financial assets: assessment for existence of impairment indicators – Note 13

(e) Changes in accounting policies and presentation

The Company has initially adopted IFRS 9 from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition methods chosen by the Company in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The effect of initially applying these standards is mainly attributed to the following:

- a decrease in impairment losses recognised on financial assets (see Note 5);
- additional disclosures related to IFRS 9 (see Notes 4 and 5); and

IFRS 9 Financial instruments
IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 '*Presentation of Financial Statements*', which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Previously, the Company disclosed this amount in notes to the financial statements.

Additionally, the Company has adopted consequential amendments to IFRS 7 '*Financial Instruments: Disclosures*' that are applied to disclosures about 2018 but have not been applied to the comparative information. The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

For an explanation of how the Company classifies financial assets under IFRS 9, see Note 3(d)(i).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

For an explanation of how Company classifies financial liabilities under IFRS 9, see Note 3(d).

Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see Note 3(d) (iii).

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at 31 December 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

  – the determination of the business model within which a financial asset is held.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

3 Significant accounting policies

Except for the changes disclosed in Note 2(e), the Company has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Interest

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3(d) (iii).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost;

Interest expense presented in the statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortised cost;

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on net investments in finance leases.

Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost;

Interest expense presented in the statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortised cost;

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss.

(c) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(d) Financial assets and financial liabilities

i. Classification

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

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

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

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

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

The Company should reclassify financial assets if the Company changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Company's senior management as a result of external or internal changes and must be significant to the Company's operations and demonstrable to external parties. Accordingly, a change in the Company's business model will occur only when the Company either begins or ceases to perform an activity that is significant to its operations; for example, when the Company has acquired, disposed of or terminated a business line.

Financial liabilities

The Company classified its financial liabilities as measured at amortised cost.

Financial liabilities are not reclassified subsequent to their initial recognition.

Policy applicable before 1 January 2018

Financial assets

The Company classified its financial assets into loans and receivables category

Financial liabilities

The Company classified its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

ii. Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

iii. Modification of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Company due to changes in the CBAR key rate, if the loan agreement entitles the Company to do so.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogizes to the guidance on the derecognition of financial liabilities.

The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion (e.g. inclusion of conversion feature) (applicable from 1 January 2018)

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Company further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3(d)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method. (see Note 3(a)).

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Company treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Company performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Company evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see Note 3(d)(ii)) and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre- modification interest rate (see Note 3(d)(iv)).

Financial liabilities

The Company derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

iv. Impairment

See also Note 4.

Policy applicable from 1 January 2018

The Company recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL: financial assets that are debt instruments; lease receivables.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt instruments that are determined to have low credit risk at the reporting date;
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 4).

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

See also Note 4.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- the borrower is past due more than 90 days on any material credit obligation to the Company.
- restrictions on the use of account balances or late payments on Company's bank deposits last more than 7 days.
- significant financial difficulty of the borrower.
- the restructuring of a loan on terms that the Company would not consider otherwise.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL for financial assets measured at amortised cost and net investments in finance leases are presented in the statement of financial position as a deduction from the gross carrying amount of the assets;

Write-offs

Loans are written off when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Company obtains:
- the borrower considers bankruptcy or a financial reorganisation
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

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

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

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

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

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

(e) Income and expense recognition

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3(a)).

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expenses, over the term of the lease.

(f) Loans to customers

'Loans to customers' caption in the year end statement of financial position includes loans to customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(g) Finance lease receivables

Where the Company is a lessor in a lease that substantially transfers all risks and rewards incidental to ownership to the lessee, the assets leased out are presented as investments in finance leases and carried at the present value of the future lease payments. Investments in finance leases are initially recognized at commencement (when the lease term begins) using a discount rate determined at inception (the early date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs is directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

(h) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition. The estimated useful lives are as follows:

- office and computer equipment	5 years
- furniture and fixture	10 years
- Vehicles	4-5 years
- leasehold improvement	Shorter of useful life and the term of the underlying lease

(i) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets are 5-10 years.

(j) Impairment

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(l) Charter capital

Charter capital is the amount of capital contributed by all participants. The total numbers of shares are proportionate division between participants in charter capital of the Company. The Company may increase or decrease its charter capital with approval of the General Meeting of Participants.

(i) Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of Azerbaijan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(m) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that affect neither accounting nor taxable profit or loss.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Company's accounting policies. Thereafter generally, the assets are measured at the lower of their carrying amount and fair value less cost to sell.

(o) Debt securities in issue

Debt securities in issue include Eurobonds issued by the Company. Debt securities are stated at amortised cost. If the Company purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

(p) Term borrowings

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

(q) Due to banks

Amounts due to banks are recorded when money or other assets are advanced to the Company by resident counterparty financial institutions. The non-derivative liability is carried at amortised cost. If the Company purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

(r) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application if permitted; however, the Company has not early adopted new or amended standards in the preparing these financial statements.

IFRS 16

The Company is required to adopt IFRS 16 Leases from 1 January 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

– the Company has not yet finalised the testing and assessment of controls over its new IT systems; and

– the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including *IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

i. Leases in which the Company is a lessee

The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Company's lease portfolio, the Company's assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions. The nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 31 December 2018, the Company does not have any non-cancellable operating leases.

ii. Leases in which the Company is a lessor

No significant impact is expected for leases in which the Company is a lessor.

iii. Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Other standards

The following new and amended standards and interpretations are not expected to have a significant impact on Company's financial statements:

- IFRIC 23 *Uncertainty over Tax Treatments*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);*
- *Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards;*
- *Amendments to References to Conceptual Framework in IFRS Standards;*

(s) Comparative information

As a result of adoption of IFRS 9 the Company changed presentation of certain captions in the primary forms of financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the statement of financial position is disclosed in Note 5.

The effect of main change in presentation of the statement of profit or loss and other comprehensive income for the year ended 31 December 2017 is "interest income" line item was re-named as "interest income calculated using the effective interest method".

Management discovered certain errors in previous periods related to the calculation of impairment allowance for loans to customers, interest income and deferred tax. Management corrected these errors by adjusting the statements of financial position as at 31 December 2017 and 1 January 2017, and statements of profit or loss and other comprehensive income and changes in equity for the year ended 31 December 2017.

	Impact of correction of error as at and for the year ended 31 December 2017			**Impact of correction of error as at and for the year ended 1 January 2017**		
AZN'000	**As previously reported**	**Adjustment**	**As restated**	**As previously reported**	**Adjustment**	**As restated**
Statement of financial position						
Loans and advances to customers	19,290	2,148	21,438	20,206	82	20,288
Deferred tax asset	1,115	(550)	565	1,273	(806)	467
(Accumulated deficit)/Retained earnings	(4,185)	1,598	(2,587)	(5,373)	(724)	(6,097)
Statement of profit or loss						
Income tax expense	(381)	256	(125)			
Impairment recovery on debt financial instruments	1,202	3,415	4,617			
Interest income calculated using effective the interest method	5,564	(1,350)	4,214			

4 Financial risk review

This note presents information about the Company's exposure to financial risks. For information on the Company's financial risk management framework, see Note 22.

Credit risk – Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(d) (iv).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative information and analysis, based on the Company's historical experience and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The company uses the following criteria for determining whether there has been a significant increase in credit risk:

- Loan exposure past due more than 30 days;
- The contract was restructured under circumstances other than described in credit impaired financial assets definition
- Restrictions on the use of Company's account balances or late payments on deposits due to the inability of a bank to fulfill the contractual obligations in respect of cash flows within 1 day and more.

The credit risk for placements in banks or loans to corporate borrowers may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Company's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience.

Overdue days are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

Generating the term structure of PD

The probability of default (PD,%) for the loans of the Company is calculated using the Markov chains method, namely, stochastic loan transition matrices over the intervals of overdue periods during a given analysed period.

The Company collects performance and default information about its credit risk by type of product. In order to estimate PD, the Company uses historical data horizon starting from July 2016.

For the calculation of PD, all loans that are available at the beginning of the analyzed period (the year preceding the date of calculating the reservation rates) are ranked by allocated overdue intervals:

- "without overdue days",
- "1-30 overdue days",
- "31-60 overdue days ",
- "61-90 overdue days ",
- "Default".

Average migration matrix between the risk groups is derived from historical migration data on a collective basis.

As required by IFRS 9, the Company incorporates forward looking information in the measurement of ECL. PD parameter is adjusted to account for future developments in macroeconomic factors.

Definition of default

For details on criteria for credit-impaired assets which are the same used for default criteria please refer to Note 3(d) (iv).

Incorporating of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Company uses expert judgment in assessment of forward-looking information. This assessment is based also on external information.

According to one of IFRS 9 main requirements forward-looking view must be included for the adjustments of PD lifetime dependence and regression models that explain behaviour of historical defaults rates with selected macroeconomic variables should be used to adjust PD curves to make it more point-in-time.

The Company has identified and documented key drivers of credit risk and credit losses, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses.

Macroeconomic indicators were selected based on scientific studies of the probability of defaults in developing and developed countries. The most significant macroeconomic indicators are real oil prices and average monthly salary. These indicators should show the greatest impact on the creditworthiness of the Company's borrowers, since borrowers of the Company represent a class of the population with incomes on low level or below middle level.
External information considered includes economic data and forecasts published by governmental bodies and monetary authorities, such as the Central Bank of Azerbaijan Republic. The Company analysed 3 years historical macroeconomic data.

The key drivers depend on portfolio segment. The economic scenarios used as at 31 December 2018 included the following key indicators for the Republic of Azerbaijan for the years ending 31 December 2019 through 2021.

Key driver	2019	2020	2021
Average salary	562.60	575.00	575.00
Oil Price (Brent)	65.0	60.0	69.10

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(d) (iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(d) (iv)). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period.

For portfolios in respect of which the Company has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

AZN'000	Exposure as at 31 December 2018	External Benchmarks used PD	LGD
Cash and cash equivalents	191	Moody's default study, or PDs used for business loans for not rated Banks	100%
Other financial assets	3,830		

5 Transition to IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018.

AZN'000	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Remeasurement	New carrying amount under IFRS 9
Financial assets						
Cash and cash equivalents	11	Loans and receivables	Amortised cost	1,263		1,263
Loans to customers	14	Loans and receivables	Amortised cost	21,438	109	21,547
Other financial assets	12	Loans and receivables	Amortised cost	2,578		2,578
Total financial assets				**25,279**	**109**	**25,388**
Financial liabilities						
Due to banks	17	Amortised cost	Amortised cost	2,337		2,337
Term borrowings	18	Amortised cost	Amortised cost	9,854		9,854
Debt securities	19	Amortised cost	Amortised cost	8,563		8,563
Other financial liabilities		Amortised cost	Amortised cost	66		66
Total financial liabilities				**20,820**		**20,820**

The following table analyses the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings. There is no impact on other components of equity.

AZN'000	Impact of adopting IFRS 9 at 1 January 2018
Accumulated losses	
Closing balance under IAS 39 (31 December 2017)	(2,587)
Recognition of expected credit losses under IFRS 9	109
Opening balance under IFRS 9 (1 January 2018)	**(2,478)**

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

For financial assets, this table is presented by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018.

6 Net interest income

	2018 AZN'000	2017 * AZN'000 (restated)
Interest income calculated using the effective interest method		
Loans and advances to customers	3,735	4,169
Current accounts and overnight placements with banks	18	45
Total interest income calculated using the effective interest method	**3,753**	**4,214**
Other interest income-interest income on finance lease	40	-
Total interest income	**3,793**	**4,214**
Interest expense		
Term borrowings	706	1,074
Debt securities in issue	519	728
Due to banks	438	318
	1,663	**2,120**
	2,130	**2,094**

7 Fee and commission expense

	2018 AZN'000	2017 AZN'000
Settlement transactions	119	20
Brokerage services	21	-
Others	16	33
	156	**53**

8 Personnel expenses

	2018 AZN'000	2017 AZN'000
Employee compensation	1,914	1,733
Contributions to Social Security Fund	279	295
	2,193	**2,028**

9 Other general administrative expenses

	2018 AZN'000	2017 AZN'000
Rent	207	227
Professional services	178	181
Depreciation and amortization	86	105
Communication	84	89
Advertising and marketing	84	80
Other	272	271
	911	**953**

10 Income tax expense

	2018 AZN'000	2017 AZN'000
Current year tax expense	123	223
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(41)	(98)
Total income tax expense	**82**	**125**

In 2018, the applicable tax rate for current and deferred tax is 20% (2017: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2018 AZN'000	%	2017 AZN'000	%
Profit (Loss) before tax	1,965		3,635	
Income tax at the applicable tax rate	393	20	727	20
(Non-taxable income)/non-deductible costs	(311)	(16)	(602)	(17)
	82	**4**	**125**	**3**

Deferred tax assets and liabilities

Differences between IFRS and the Azerbaijani statutory taxation rules give rise to certain temporary differences between the carrying value of certain assets and liabilities for purposes of financial reporting and income tax calculation. The tax effect of the movements in these temporary differences is recorded at the rate of 20%.

Movements in temporary differences during the years ended 31 December 2018 and 2017 are presented as follows:

2018

AZN'000	Balance (restated) 1 January 2018	Recognized in profit or loss	Balance (restated) 31 December 2018
Loans and advances to customers	525	48	573
Premises and equipment	6	4	10
Intangible assets	4	-	4
Other liabilities	30	(18)	12
Other asset	-	7	7
	565	**41**	**606**

2017

AZN'000	Balance (restated) 1 January 2017	Recognized in profit or loss	Balance (restated) 31 December 2017
Loans and advances to customers	440	85	525
Premises and equipment	6	-	6
Intangible assets	-	4	4
Other liabilities	21	9	30
	467	**98**	**565**

11 Cash and cash equivalents

	2018 AZN'000	2017 AZN'000
Cash on hand	1	3
Current accounts with banks		
- rated from BB- to BB+	22	387
- rated below B+	82	440
- not rated	87	433
Total current accounts with banks	**191**	**1,260**
Total cash and cash equivalents	**192**	**1,263**

Ratings are based on Fitch Rating system. As at 31 December 2018, all balances included in cash and cash equivalents are classified as Stage 1 and no loss allowance is recognized. As at 31 December 2017, no cash and cash equivalents balances are impaired or past due.

12 Other financial assets

	2018 AZN'000	2017 AZN'000
Restricted cash		
- rated below B+	1,051	2,444
- not rated	2,780	-
Total restricted cash	**3,830**	**2,444**
Other financial assets	**190**	**134**
Total other financial assets	**4,020**	**2,578**

Restricted cash represents balance on current account placed by the Company in Pasha Bank OJSC and Nikoil ICB OJSC in exchange for the loan obtained from Pasha Bank OJSC and Nikoil ICB OJSC. The Company does not have the right to use these funds for the purposes of funding its own activities until the maturity date of borrowings.

As at 31 December 2018, all balances included in other financial assets are classified as Stage 1 and no loss allowance is recognized due to insignificancy of the amount. As at 31 December 2017, no other financial assets were impaired or past due.

13 Assets held for sale

During the years ended 31 December 2018 and 2017 the Company received non-financial assets held for sale by taking possession of collateral held as security against loans and advances to customers. As at 31 December 2018 and 2017 such assets amounted to AZN 328 thousand and AZN 499 thousand, respectively, net of impairment allowance. Initially, it was intended that these assets would be recovered principally through a sale transaction within one year from the date of classification. However, during the year ended 31 December 2018, the market conditions that existed at the date the assets were classified initially as held for sale significantly deteriorated and as a result, the assets could not be sold within one year period. The Company continues to actively market the assets held for sale at a price that is reasonable given the change in market conditions. As at 31 December 2018 and 2017 all of the assets held for sale were real estate properties.

	2018 AZN'000	2017 AZN'000
Repossessed collaterals	666	499
Impairment allowance	(338)	-
Balance at the end of the year	**328**	**499**

Analysis of movements in the impairment

	2018 AZN'000	2017 AZN'000
Balance at the beginning of the year	-	-
Impairment charge	338	-
Balance at the end of the year	**338**	**-**

14 Loans to customers

	31 December 2018 AZN'000	% of total gross loans	31 December 2017 AZN'000	% of total gross loans	31 December 2016 AZN'000	% of total gross loans
Corporate loans	-	0%	3,409	13%	-	0%
Total loans to corporate customers	**-**		**3,409**		**-**	
Business loans	9,692	40%	9,136	35%	15,187	49%
Consumer loans	14,514	60%	13,784	52%	15,930	51%
Total loans to individuals	**24,206**		**22,920**		**31,117**	
Gross loans to customers	**24,206**		**26,329**		**31,117**	
Loss allowance	(7,119)	29%	(4,891)	20%	(10,829)	35%
Net loans to customers	**17,087**		**21,438**		**20,288**	

The following table shows loan balances per each industry group of the customers as at 31 December 2018.

	31 December 2018 AZN'000	% of total gross loans	31 December 2017 AZN'000	% of total gross loans
Corporate loans	-	0%	3,409	13%
Total loans to corporate customers	**-**		**3,409**	
Consumer	10,261	43%	10,011	38%
Mortgage	4,253	18%	3,773	14%
Trade, Services	7,529	31%	7,213	27%
Agriculture	328	1%	242	1%
Other	1,835	8%	1,681	6%
Total loans to individuals	**24,206**		**22,920**	
Gross loans to customers	**24,206**		**26,329**	
Loss allowance	(7,119)		(4,891)	
Net loans to customers	**17,087**		**21,438**	

(a) Loss allowance

The following table shows reconciliation from the opening balances of the loss allowance of loans to customers as at 31 December 2017 accounted for under IAS 39 to the opening balances of the loss allowance of loans to customers as at 1 January 2018 accounted for under IFRS 9:

AZN'000	
Balance at 31 December 2017	**4,891**
Remeasurement of loss allowance	410
Unwinding of discount	1,349
Reversal of written off balances	1,610
Balance at 1 January 2018	**8,260**

The following tables show reconciliations from the opening to the closing balances of the loss allowance of loans to customers. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017
AZN'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to customers at amortised cost					
Balance at 1 January	166	103	7,991	**8,260**	**10,829**
Transfer to Stage 1	7	(1)	(6)	**-**	
Transfer to Stage 2	(44)	153	(109)	**-**	
Transfer to Stage 3	(1)	(38)	39	**-**	
Net remeasurement of loss allowance	(160)	(109)	(3,301)	**(3,570)**	**(4,617)**
New financial assets originated or purchased	126	-	-	**126**	
Financial assets that have been derecognized	(16)	-	-	**(16)**	
Write-offs	-	-	(201)	**(201)**	**(2,241)**
Recoveries of amounts previously written off	-	-	1,315	**1,315**	**920**
Unwinding of discount on present value of ECLs			1,205	**1,205**	
Balance at 31 December	**78**	**108**	**6,933**	**7,119**	**4,891**

	2018				2017
AZN'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to customers at amortised cost-corporate loans					
Balance at 1 January	49	-	-	**49**	**-**
Net remeasurement of loss allowance	(49)	-	-	**(49)**	**46**
Balance at 31 December	**-**	**-**	**-**	**-**	**46**

	2018				2017
AZN'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to customers at amortised cost-business loans					
Balance at 1 January	18	74	5,231	**5,323**	**6,829**
Transfer to Stage 1	1	(1)	-	**-**	
Transfer to Stage 2	-	12	(12)	**-**	
Transfer to Stage 3	-	(35)	35	**-**	
Net remeasurement of loss allowance	(17)	(23)	(2,440)	**(2,480)**	**(3,183)**
New financial assets originated or purchased	22	-	-	**22**	
Write-offs	-	-	(160)	**(160)**	**(964)**
Recoveries of amounts previously written off	-	-	1,210	**1,210**	**681**
Unwinding of discount on present value of ECLs			864	**864**	**-**
Balance at 31 December	**24**	**27**	**4,728**	**4,779**	**3,363**

	2018				2017
AZN'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to customers at amortised cost-consumer loans					
Balance at 1 January	99	29	2,760	**2,888**	**4,000**
Transfer to Stage 1	6	-	(6)	**-**	
Transfer to Stage 2	(44)	141	(97)	**-**	
Transfer to Stage 3	(1)	(3)	4	**-**	
Net remeasurement of loss allowance	(94)	(86)	(861)	**(1,041)**	**(1,480)**
New financial assets originated or purchased	104	-	-	**104**	
Financial assets that have been derecognized	(16)	-	-	**(16)**	**-**
Write-offs	-	-	(41)	**(41)**	**(1,277)**
Recoveries of amounts previously written off	-	-	105	**105**	**239**
Unwinding of discount on present value of ECLs			341	**341**	
Balance at 31 December	**54**	**81**	**2,205**	**2,340**	**1,482**

Loans that are written off during 2018 could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(b) Credit quality of loans to customers

Significant changes in the gross carrying amount of financial instruments during the period that contributed to changes in loss allowance were as follows:
• the volume of loans originated during the period increased the gross carrying amount of the loan portfolio by AZN 9,629 thousand with a corresponding increase in loss allowance and further remeasurement including transfers between stages by AZN 126 thousand.

• the write-off of loans with a total gross carrying amount of AZN 201 thousand resulted in the reduction of stage 3 loss allowance by the same amount.

• The volume of loans repaid with a total gross carrying amount of AZN 11,587 thousand resulted in a reduction of loss allowance by 808 thousand.

The following table provides information on the credit quality of loans to customers as at 31 December 2018. Comparative amounts provides information on the credit quality of loans to customers as at 31 December 2017 and reflect measurement basis under IAS 39.

AZN'000	**31 December 2018**				**31 December 2017**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Impaired**	**Unimpaired**	**Total**
Loans to customers at amortised cost							
Not overdue	10,785	2,345	117	**13,247**	688	16,968	**17,656**
Overdue less than 30 days	105	167	5	**277**	139	381	**520**
Overdue 30-89 days	-	93	33	**126**	70	40	**110**
Overdue 90-179 days	-	-	482	**482**	951	-	**951**
Overdue 180-360 days	-	-	1,238	**1,238**	1,203	-	**1,203**
Overdue more than 360 day	-	-	8,836	**8,836**	5,889	-	**5,889**
	10,890	**2,605**	**10,711**	**24,206**	**8,940**	**17,389**	**26,329**
Loss allowance	**(78)**	**(108)**	**(6,933)**	**(7,119)**	**(4,602)**	**(289)**	**(4,891)**
Carrying amount	**10,812**	**2,497**	**3,778**	**17,087**	**4,338**	**17,100**	**21,438**

AZN'000	**31 December 2018**				**31 December 2017**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Impaired**	**Unimpaired**	**Total**
Loans to customers at amortised cost – business loans							
Not overdue	1,371	817	37	**2,225**	303	2,614	2,917
Overdue less than 30 days	9	103	-	**112**	137	281	418
Overdue 30-89 days	-	29	3	**32**	33	6	39
Overdue 90-179 days	-	-	220	**220**	743	-	743
Overdue 180-360 days	-	-	975	**975**	1,105	-	1,105
Overdue more than 360 days	-	-	6,128	**6,128**	3,911	-	3,911
	1,380	**949**	**7,363**	**9,692**	**6,232**	**2,901**	**9,133**
Loss allowance	**(24)**	**(27)**	**(4,728)**	**(4,779)**	**(3,278)**	**(86)**	**(3,363)**
Carrying amount	**1,356**	**922**	**2,635**	**4,913**	**2,954**	**2,815**	**5,770**

AZN'000	31 December 2018				31 December 2017		
	Stage 1	Stage 2	Stage 3	Total	Impaired	Unimpaired	Total
Loans to customers at							
Loans to customers at amortised cost – consumer loans							
Not overdue	9,414	1,528	79	**11,021**	385	10,945	11,330
Overdue less than 30 days	96	64	5	**165**	2	100	102
Overdue 30-89 days	-	64	30	**94**	37	34	71
Overdue 90-179 days	-	-	262	**262**	208	-	208
Overdue 180-360 days	-	-	262	**262**	98	-	98
Overdue more than 360 days	-	-	2,710	**2,710**	1,978	-	1,978
	9,510	**1,656**	**3,348**	**14,514**	**2,708**	**11,079**	**13,787**
Loss allowance	**(54)**	**(81)**	**(2,205)**	**(2,340)**	**(1,325)**	**(157)**	**(1,482)**
Carrying amount	**9,456**	**1,575**	**1,143**	**12,174**	**1,383**	**10,922**	**12,305**

(c) Collateral held and other credit enhancements

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at 31 December 2018. The fair value of collaterals are updated as at the reporting date.

For each loan, the fair value of disclosed collateral is capped to the carrying amount of the loan it is held against.

				Fair value of collateral held		
AZN'000	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Motor vehicles**	**Real estate**	**Total**
Loans to individuals						
Business loans	7,363	(4,728)	2,635	3	2,222	**2,225**
Consumer loans	3,348	(2,205)	1,143	9	640	**649**
Total credit-impaired loans to customers	**10,711**	**(6,933)**	**3,778**	**12**	**2,862**	**2,874**

The following table provides information on collateral securing loans to customers, net of impairment, by types of collateral as at 31 December 2018:

				Fair value of collateral held		
AZN'000	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Motor vehicles**	**Real estate**	**Total**
Loans to individuals						
Business loans	9,691	(4,778)	4,913	18	3,836	**3,854**
Consumer loans	14,515	(2,341)	12,174	46	3,344	**3,390**
Total credit-impaired loans to customers	**24,206**	**(7,119)**	**17,087**	**64**	**7,180**	**7,244**

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at 31 December 2017. The fair value of collaterals are updated as at the reporting date.

				Fair value of collateral held		
AZN'000	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Motor vehicles**	**Real estate**	**Total**
Loans to individuals						
Business loans	6,387	(3,278)	3,109	10	2,800	**2,810**
Consumer loans	2,553	(1,325)	1,228	12	959	**971**
Total credit-impaired loans to customers	**8,940**	**(4,603)**	**4,337**	**22**	**3,759**	**3,781**

The following table provides information on total amount of loans to customers, net of impairment, by types of collateral as at 31 December 2017:

				Fair value of collateral held		
AZN'000	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Motor vehicles**	**Real estate**	**Total**
Loans to corporate customers						
Corporate loans	3,409	(46)	3,363	-	-	**-**
Loans to individuals						
Business loans	9,288	(3,364)	5,924	33	5,074	**5,107**
Consumer loans	13,632	(1,481)	12,151	65	3,631	**3,696**
Total credit-impaired loans to customers	**26,329**	**(4,891)**	**21,438**	**98**	**8,705**	**8,803**

(d) Significant credit exposures

As at 31 December 2018, the Company has no borrowers or Companys of connected borrowers, whose loan balances exceed 10% of equity. As at 31 December 2017, the Company had loan to TBC Leasing, which is fellow subsidiary of the entity. The loan amount took 12% of gross loan portfolio and 47% of the equity of the Company. The loan was repaid at its maturity during 2018, the Company do not have any such risk concentration as at 31 December 2018.

(e) Loan maturities

The maturity of the loan portfolio is presented in note 22(f), which shows the remaining period from the reporting date to the contractual maturity of the loans.

(f) Key assumptions and judgments for estimating the loan impairment

Changes in estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to customers as at 31 December 2018 would be AZN 71 thousand lower/higher (31 December 2017: AZN 54 thousand lower/higher).

15 Finance leases

The following table provides an analysis of finance lease receivables for leases of vehicle and equipment in which the Company is the lessor.

AZN'000 **Gross investment in finance lease, receivable**	**2018** **AZN'000**
Less than one year	511
Between one and five years	748
More than five years	-
	1,259
Unearned finance income	(380)
Net investment in finance lease	**879**
Less impairment loss	(29)
	850
Net investment in finance lease, receivable	
Less than one year	301
Between one and five years	578
More than five years	-
	879

The Company treats finance lease as a business loan in ECL measurement. As at 31 December 2018, all balances included in Finance lease are classified as Stage 1 with 0 overdue days and total of AZN 29 thousand loss allowance is recognized. As at 31 December 2017, the Company had no finance lease in its balances.

16 Property, equipment and intangible assets

AZN'000	Leasehold improvement	Office and Computer Equipment	Furniture	Vehicles	Computer software and licenses	Total
Cost						
Balance at 1 January 2018	**446**	**333**	**128**	**58**	**200**	**1,165**
Additions	-	14	-	-	17	**31**
Disposals	-	(2)	(1)	(11)	(5)	**(19)**
Balance at 31 December 2018	**466**	**345**	**127**	**487**	**212**	**1,177**
Depreciation and amortisation						
Balance at 1 January 2018	(446)	(240)	(84)	(36)	(117)	**(923)**
Depreciation and amortisation for the year	-	(41)	(11)	(5)	(29)	**(86)**
Disposals	-	1	1	11	4	**17**
Balance at 31 December 2018	**(446)**	**(280)**	**(94)**	**(30)**	**(142)**	**(992)**
Carrying amount						
At 31 December 2018	**-**	**65**	**33**	**17**	**70**	**185**

AZN'000	Leasehold improvement	Office and Computer Equipment	Furniture	Vehicles	Computer software and licenses	Total
Cost						
Balance at 1 January 2017	446	422	160	71	198	**1,297**
Additions	-	18	1	14	2	**35**
Disposals	-	(107)	(33)	(27)	-	**(167)**
Balance at 31 December 2017	**446**	**333**	**128**	**58**	**200**	**1,165**
Depreciation and amortisation						
Balance at 1 January 2017	(446)	(290)	(97)	(38)	(82)	**(953)**
Depreciation and amortisation for the year	-	(47)	(14)	(8)	(35)	**(104)**
Disposals	-	97	27	10	-	**134**
Balance at 31 December 2017	**(446)**	**(240)**	**(84)**	**(36)**	**(117)**	**(923)**
Carrying amount						
At 31 December 2017	**-**	**93**	**44**	**22**	**83**	**242**

17 Due to banks

	2018 AZN'000	2017 AZN'000
Loans from Pasha Bank	2,674	2,337
Loans from Nikoil Bank	5,794	-
	8,468	**2,337**

As at 31 December 2018, the balance due to Pasha Bank was AZN 2,674 thousand (2017: AZN 2,337 thousand). These loans consisted of AZN 1,956 thousand obtained in April 2018 with an annual interest rate of 13% which matures in April 2020, AZN 538 thousand obtained in August 2018 with an annual interest rate of 7% which matures in August 2019, loan of AZN 325 thousand obtained in September 2018 with an annual interest rate of 7% which matures in September 2019, AZN 187 thousand in October with an annual interest rate of 7% which matures in October 2019.

The principal balance at Nikoil Bank was AZN 5,725 thousand (2017: nil) and the balance of accrued interest was AZN 69 thousand (2017: nil). These loans consist of AZN 2,600 thousand obtained in May 2018 with an annual interest rate of 14% which matures in May 2019, AZN 235 thousand obtained in June with an annual interest rate of 8% which matures in June 2021 and AZN 2,890 thousand (USD 1,700 thousand) obtained in September with an annual interest rate of 6% which matures in September 2019.

The Company is not subject to any covenants related to these borrowings.

Movements in Due to banks balances for the year ended 31 December 2018 and 2017 are as follows:

	2018 AZN'000
Balance at the beginning of the year	**2,337**
Proceeds from borrowing	15,626
Payment	(9,573)
Total changes from financing cash flows	**8,390**
Interest expense	467
Interest paid	(389)
Balance at 31 December 2018	**8,468**

18 Term borrowings

	2018 AZN'000	2017 AZN'000
Funds borrowed from JSC "TBC Bank"	3,493	3,476
Funds borrowed from OPIC	-	6,378
	3,493	**9,854**

The borrowing include principal amount of AZN 3,400 thousand and accrued interest payable in the amount of AZN 93 thousand (2017: AZN 76 thousand). In 2016, the Company signed a loan agreement with TBC Bank, the parent company, to obtain subordinated loan in amount of USD 2,000 thousand (AZN 3,541 thousand, classified as subordinated debt) with a maturity date on 21 October 2019. The status of this debt was changed to senior debt during 2017. The company is obliged to comply with certain financial covenants stipulated by the aforementioned loan agreement. The company was not in breach of any covenants as at 31 December 2018.

In 2010, the Company signed a loan agreement with OPIC in the amount of USD 12,000 thousand (AZN 9,641 thousand) with a maturity date on 15 June 2021. At 31 December 2017, the total outstanding balance under these facilities was AZN 6,378 thousand. The Company pledged the loans of AZN 7,544 thousand as collateral for its borrowings taken from OPIC. The Company was obliged to comply with certain financial covenants stipulated by the aforementioned loan agreements. The Company was not in breach of any covenants as at 31 December 2017 and repaid the loan in full during 2018.

Movements in Term borrowings balances for the year ended 31 December 2018 and 2017 are as follows:

	2018 AZN'000
Balance at the beginning of the year	**9,854**
Proceeds from borrowing	-
Payment	(6,444)
Total changes from financing cash flows	**3,410**
Effect of foreign exchange	(1)
Interest expense	821
Interest paid	(737)
Balance at 31 December 2018	**3,493**

19 Debt securities

At 31 December 2018, the Company has debt securities in issue of AZN 3,434 thousand (2017: AZN 8,563 thousand) in US Dollars denominated Eurobonds including accrued interest. The portion of these bonds mature in 2019, have a coupon rate of 8% with par value of USD 100,000 per each of 20 bonds. The other portion matured in 2018, had a coupon rate of 7.8% with par value of USD 10,000 per each 300 bonds.

Movements in debt securities balances for the year ended 31 December 2018 and 2017 are as follows:

	2018 AZN'000
Balance at the beginning of the year	**8,563**
Proceeds from borrowing	-
Payment	(5,102)
Total changes from financing cash flows	**3,461**
Effect of foreign exchange	(1)
Interest expense	520
Interest paid	(546)
Balance at 31 December 2018	**3,434**

20 Other liabilities

	2018 AZN'000	2017 AZN'000
Payables to employees	78	195
Taxes payable other than on income	4	3
Other accrued liabilities	127	40
	209	**238**

21 Charter capital

Charter capital represents contributions made by participants of the Company. The participants of the Company are entitled to vote at annual and general meetings of the Company's participants proportionately to their contributions.

The outstanding charter capital as at 31 December 2018, comprises AZN 8,453 thousand (2017: AZN 8,453 thousand). As at 31 December 2018 the company is 100% owned by "TBC Bank" JSC. During 2018 no charter capital contribution was made by the participants (2017: nil).

22 Risk management, corporate governance and internal control

(a) Corporate governance framework

The Company is established as a limited liability company in accordance with Azerbaijani law. The supreme governing body of the Company is the General Shareholders' meeting that is called for annual or extraordinary meetings. The General Shareholders' meeting makes strategic decisions on the Company's operations

The General Shareholders' meeting elects the Board of Directors. The Board of Directors is responsible for overall governance of the Company's activities.

Azerbaijani legislation and the Charter of the Company establishes lists of decisions that are approved by the Board of Directors and that are approved by Director.

General activities of the Company are managed by the sole executive body of the Company (the Chief Executive Officer) Spartak Tetrashvili. The Chief Executive Officer of the Company is responsible for implementation of decisions of the Board of Directors. The Chief Executive Officer of the Company reports to the Board of Directors of the Company.

(b) Internal control policies and procedures

The Chief Executive Officer has responsibility for the development, implementation and maintaining of internal controls in the Company that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions

- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Company's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The main functions of internal audit service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfilment of the decisions of key management structures
- audit of efficiency of methodology of assessment of the risks and risk management procedures, regulated by internal documents in the Company (methods, programmes, rules and procedures)
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
- audit of applicable methods of safekeeping the Company's property
- assessment of economic reasonability and efficiency of operations and other deals
- audit of internal control processes and procedures

The Internal Audit function is independent from management and reports directly to the Supervisory Board. The results of Internal Audit reviews are discussed with relevant business process managers, with summaries submitted to the management of the Company.

The internal control system in the Company comprises:

- The Chief Executive Officer and Board of Directors
- the Chief Accountant
- the security function, including IT-security
- the human resource function
- the internal audit service

Other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:

- heads of branches and heads of business-units
- the legal officer – an employee responsible for compliance with the legal and regulatory requirements
- other employees/divisions with control responsibilities

Management believes that the Company complies with the FIMSA requirements related to risk management and internal control systems, including requirements related to the internal audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

(c) Risk management policies and procedures

The Company has risk management policies which aim to identify, analyse and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Chief Executive Officer is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Company operates within established risk parameters. He also has responsibility for controlling the Company's compliance with risk limits as established by the FIMSA. With the view of controlling effectiveness of the Company's risk management procedures and their consistent application the General Director of the Company periodically receive reports prepared by the internal audit function, discuss the contents of these reports and consider proposed corrective actions.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed 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 also reduce or create losses in the event that unexpected movements occur.

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AZN'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2018							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	192	**192**
Loans and advances to customers	1,976	774	3,665	6,684	3,988	-	**17,087**
Finance lease	30	35	208	577	-	-	**850**
Other financial assets	-	-	-	-	-	4,020	**4,020**
Total financial assets	**2,006**	**809**	**3,873**	**7,261**	**3,988**	**4,212**	**22,149**

AZN'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
LIABILITIES							
Due to banks	186	189	877	2,241	-	-	**3,493**
Term borrowings	155	227	248	2,804	-	-	**3,434**
Debt securities	712	1,267	2,932	3,557	-	-	**8,468**
Other financial liabilities	-	-	-	-	-	85	**85**
Total financial liabilities	**1,053**	**1,683**	**4,057**	**8,602**	**-**	**85**	**15,480**
	953	**(874)**	**(184)**	**(1,341)**	**3,988**	**4,127**	**6,669**

AZN'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2017							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	1,263	**1263**
Loans and advances to customers	1,655	1,540	5,374	7,184	5,685	-	**21,438**
Other financial assets	-	-	-	-	-	2,578	**2,578**
Total financial assets	**1,655**	**1,540**	**5,374**	**7,184**	**5,685**	**3,841**	**25,279**
LIABILITIES							
Due to banks	230	283	1,293	8,048	-	-	**9,854**
Term borrowings	343	567	2,639	5,014	-	-	**8,563**
Debt securities	130	256	822	1,129	-	-	**2,337**
Other financial liabilities	-	-	-	-	-	66	**66**
Total financial liabilities	**703**	**1,106**	**4,754**	**14,191**	**-**	**66**	**20,820**
	952	**434**	**620**	**(7,007)**	**5,685**	**3,775**	**4,459**

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2018 and 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2018 Average effective interest rate, %		**2017** Average effective interest rate, %	
	AZN	**USD**	**AZN**	**USD**
Interest bearing assets				
Loans and advances to customers	25.05%	17.14%	29.90%	18.81%
Finance lease	28.20%	-	-	-
Interest bearing liabilities				

	2018 Average effective interest rate, %		2017 Average effective interest rate, %	
	AZN	USD	AZN	USD
Due to banks	12%	6%	13%	-
Term borrowings	-	9%	-	7%
Debt securities	-	8%	-	8%

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2018 and 2017, is as follows:

	2018 AZN'000	2017 AZN'000
100 bp parallel rise	6	(12)
100 bp parallel fall	(6)	12

(ii) Currency risk

The Company has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The following table shows the currency structure of financial assets and liabilities as at 31 December 2018:

	AZN AZN'000	USD AZN'000	Total AZN'000
ASSETS			
Cash and cash equivalents	115	77	**192**
Loans and advances to customers	12,009	5,078	**17,087**
Finance lease	850	-	**850**
Other financial assets	184	3,836	**4,020**
Total assets	**13,158**	**8,991**	**22,149**
LIABILITIES			
Term borrowings	-	3,493	**3,493**
Debt securities	-	3,435	**3,434**
Due to banks	5,527	2,940	**8,468**
Other financial liabilities	85	-	**85**
Total liabilities	**5,612**	**9,868**	**15,480**
Net position	**7,546**	**(877)**	**6,669**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2017:

	AZN AZN'000	USD AZN'000	Total AZN'000
ASSETS			
Cash and cash equivalents	210	1,053	**1,274**
Loans and advances to customers	6,083	15,355	**21,438**
Other financial assets	-	2,444	**2,444**
Total assets	**6,293**	**18,852**	**25,145**

	AZN AZN'000	USD AZN'000	Total AZN'000
LIABILITIES			
Term borrowings	-	9,854	**9,854**
Debt securities	-	8,563	**8,563**
Due to banks	2,337	-	**2,337**
Other financial liabilities	66	-	**66**
Total liabilities	**2,403**	**18,417**	**20,820**
Net position	**3,890**	**435**	**4,325**

The Company is not required to report for the regulatory currency position compliance purposes based on the above table, rather currency position based on prudential figures is reported to the regulator.

A weakening of the AZN, as indicated below, against the following currencies at 31 December 2018 and 2017, would decreased equity and profit or loss by the amounts shown below. This analysis is on a gross-of-tax basis, and is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2018 AZN'000	2017 AZN'000
20% appreciation of USD against AZN	(175)	87

A strengthening of the AZN against the above currencies at 31 December 2018 and 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(e) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor credit risk. The credit policy is reviewed and approved by the Supervisory Board.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications
- methodology for the credit assessment of borrowers
- methodology for the credit assessment of counterparties, issuers and insurance companies
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures

The Company continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Company.

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

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

	2018 AZN'000	2017 AZN'000
ASSETS		
Cash and cash equivalents	191	1,260
Loans and advances to customers	17,087	21,438
Finance lease	850	-
Total maximum exposure	**18,128**	**22,698**

For the analysis of credit risk in respect of loans to customers refer to note 14.

As at 31 December 2018 the Company has no debtor (2017: no debtor), to whom credit risk exposure exceeds 10 percent of maximum credit risk exposure.

(f) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 liquidity management. It is unusual for financial institutions 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 Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Supervisory Board.

The Company seeks to actively support a diversified and stable funding base.

The liquidity management policy requires:

- projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements

The Finance Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Finance Department then provides for an adequate portfolio of short-term liquid assets to be maintained, to ensure that sufficient liquidity is maintained within the Company as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Finance Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by and implemented by the Finance Department.

The following tables show the undiscounted cash flows on financial assets, liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liabilities.

The undiscounted maturity analysis for financial assets and liabilities as at 31 December 2018 is as follows:

AZN'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative assets							
Cash and cash equivalents	192	-	-	-	-	**192**	**192**
Loans and advances to customers	2,096	1,192	5,240	8,776	4,174	**21,478**	**17,087**
Finance lease	50	65	353	737	-	**1,205**	**850**
Other financial assets	190	-	3,830	-	-	**4,020**	**4,020**
Total non-derivative assets	**2,528**	**1,257**	**9,423**	**9,513**	**4,174**	**26,895**	**22,149**
Term borrowings	212	241	1,113	2,482	-	**4,048**	**3,493**
Debt securities	177	271	282	2,804	-	**3,534**	**3,434**
Due to banks	782	1,406	3,278	3,557	-	**9,023**	**8,468**
Other financial liabilities	85	-	-	-	-	**85**	**85**
Total non-derivative financial liabilities	**1,256**	**1,918**	**4,673**	**8,843**	**-**	**16,690**	**15,480**

The undiscounted maturity analysis for financial assets and liabilities as at 31 December 2017 is as follows:

AZN'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative assets							
Cash and cash equivalents	1,263	-	-	-	-	**1,263**	**1,263**
Loans and advances to customers	1,734	2,184	7,768	12,033	5,725	**29,444**	**21,438**
Other financial assets	-	-	2,578	-	-	**2,578**	**2,578**
Total non-derivative assets	**2,997**	**2,184**	**10,346**	**12,033**	**5,725**	**33,285**	**25,279**
Term borrowings	210	419	1,869	8,558	-	**11,056**	**9,854**
Debt securities	56	112	5,470	3,514	-	**9,152**	**8,563**
Due to banks	25	50	2,538	-	-	**2,613**	**2,337**
Other financial liabilities	66	-	-	-	-	**66**	**66**
Total non-derivative financial liabilities	**357**	**581**	**9,877**	**12,072**	**-**	**22,887**	**20,820**

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2018:

AZN'000	Demand and less than 1 month	From 1 to 3 months	From 3 to12 months	From 1 to 5 years	More than 5 years	Overdue (expired)	Total
Non-derivative assets							
Cash and cash equivalents	192	-	-	-	-	-	**192**
Loans and advances to customers	963	774	3,665	5,616	3,988	2,081	**16,191**
Finance lease	30	35	208	577	-	-	**850**
Other financial assets	190	-	3,830	-	-	-	**4,020**
Total assets	**1,375**	**809**	**7,703**	**6,193**	**3,988**	**2,081**	**21,253**
Non-derivative liabilities							
Term borrowings	186	189	877	2,241	-	-	**3,493**
Debt securities	155	227	248	2,804	-	-	**3,434**
Due to banks	712	1,267	2,932	3,557	-	-	**8,468**
Other financial liabilities	85	-	-	-	-	-	**85**
Total financial liabilities	**1,138**	**1,683**	**4,057**	**8,602**	**-**	**-**	**15,480**
Net position	**236**	**(874)**	**3,646**	**(2,409)**	**3,988**	**2,081**	**5,773**
Cumulative net position	**236**	**(638)**	**3,008**	**600**	**4,588**		

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2017:

AZN'000	Demand and less than 1 month	From 1 to 3 months	From 3 to12 months	From 1 to 5 years	More than 5 years	Overdue (expired)	Total
Non-derivative assets							
Cash and cash equivalents	1,263	-	-	-	-	-	**1,263**
Loans and advances to customers	1,421	1,524	5,291	6,338	6,009	855	**21,438**
Other financial assets	-	-	2,578	-	-	-	**2,578**
Total assets	**2,684**	**1,524**	**7,869**	**6,338**	**6,009**	**855**	**25,279**
Non-derivative liabilities							
Term borrowings	230	283	1,293	8,048	-	-	**9,854**
Debt securities	343	567	2,639	5,014	-	-	**8,563**
Due to banks	130	256	822	1,129	-	-	**2,337**
Other financial liabilities	66	-	-	-	-	-	**66**
Total financial liabilities	**769**	**1,106**	**4,754**	**14,191**	**-**	**-**	**20,820**
Net position	**1,915**	**418**	**3,115**	**(7,853)**	**6,009**	**855**	**4,459**
Cumulative net position	**1,915**	**2,333**	**5,448**	**(2,405)**	**3,604**	**4,459**	**4,459**

23 Capital management

The FIMSA sets and monitors capital requirements for the Company. The Company defines as capital those items defined by statutory regulation as capital for credit organizations. Under the current capital requirements set by the FIMSA, non-bank credit organizations have to hold a minimum level of charter capital of AZN 300 thousand (2016: AZN 300 thousand). There is no requirement set by FIMSA to non-bank credit organization regarding the maintenance of a ratio of total regulatory capital to risk weighted assets (statutory capital ratio).

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Company's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of Company's revenues and profit, and long-term investment plans mainly financed by the Company's operating cash flows. With these measures the Company aims for steady profits growth.

24 Contingencies

(a) Insurance

The insurance industry in the Republic of Azerbaijan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or related to operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

The taxation system in the Republic of Azerbaijan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges.

A tax year generally remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Azerbaijan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(d) Operating leases

Leases as lessee

The Company leases a number of premises under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date. None of the leases includes contingent rentals. The Company does not have any non-cancellable leases.

25 Related party transactions

(a) Remuneration of key management personnel

Total remuneration included in personnel expenses for the years ended 31 December 2018 and 2017 is as follows:

	2018 AZN'000	2017 AZN'000
Short-term employee benefits	452	414
	452	**414**

The Company does not provide post-employment, termination and other long-term benefits to management.

(b) Transactions with other related parties

The outstanding balances and average effective interest rates as at 31 December 2018 for transactions with key management personnel, parent company and entities under common control of the same parent are as follows:

Statement of financial position	Key Management Personnel	Average effective interest rate, %	Entities under common control	Average effective interest rate, %	Parent company	Average effective interest rate, %
Cash and cash equivalents	-		-		22	
Gross amount of loans and advances to customers	55	23% (AZN)	-		-	
Term borrowings	-		-		3,493	6.8%+Libor (USD)
Other liabilities	2		-		10	

The outstanding balances and average effective interest rates as at 31 December 2017 for transactions with key management personnel, parent company and entities under common control of the same parent are as follows:

Statement of financial position	Key Management Personnel	Average effective interest rate, %	Entities under common control	Average effective interest rate, %	Parent company	Average effective interest rate, %
Cash and cash equivalents	-		-		387	
Gross amount of loans and advances to customers	-		3,407	6% (USD)	-	
Impairment allowance for loans	-		68			
Term borrowings	-		-		3,476	6.8%+Libor (USD)
Debt securities	170		-			
Other liabilities	102		-		-	

Amounts included in profit or loss in relation to transactions with key management personnel, parent company and entities under common control of the same parent for the year ended 31 December 2018 are as follows:

Statement of profit or loss	Key Management Personnel	Entities under common control	Parent company
Interest income calculated using effective the interest method	10	119	-
Interest expense	-	-	441
Fee and commission expense	-	22	-

Amounts included in profit or loss in relation to transactions with key management personnel, parent company and entities under common control of the same parent for the year ended 31 December 2017 are as follows:

Statement of profit or loss	Key Management Personnel	Entities under common control	Parent company
Interest income calculated using effective the interest method	-	46	-
Interest expense	14	-	464
Impairment loss on debt financial instruments	-	68	-
Administrative and other operating expenses	24	-	-

26 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

AZN'000	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	192	**192**	**192**
Loans and advances to customers	17,087	**17,087**	**17,961**
Finance lease	850	**850**	**850**
Other financial assets	4,020	**4,020**	**4,020**
Total financial assets	**22,149**	**22,149**	**23,023**
Term borrowings	3,493	**3,493**	**3,493**
Debt securities	3,434	**3,434**	**3,520**
Due to banks	8,468	**8,468**	**8,543**
Other financial liabilities	85	**85**	**85**
Total financial liabilities	**15,480**	**15,480**	**15,641**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

AZN'000	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	1,263	**1,263**	**1,263**
Loans and advances to customers	21,438	**21,438**	**22,217**
Finance lease	-	**-**	**-**
Other financial assets	2,578	**2,578**	**2,578**
Total financial assets	**25,279**	**25,279**	**26,058**
Term borrowings	9,854	**9,854**	**9,854**
Debt securities	8,563	**8,563**	**7,385**
Due to banks	2,337	**2,337**	**2,022**
Other financial liabilities	66	**66**	**66**
Total financial liabilities	**20,820**	**20,820**	**19,327**

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset, or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

(b) Fair value hierarchy

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments not measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

AZN'000	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Cash and cash equivalents	191	-	**191**	**191**
Loans and advances to customers	14,183	3,778	**17,961**	**17,087**
Finance lease	850	-	**850**	**850**
Other financial assets	4,020	-	**4,020**	**4,020**
Total financial assets	**19,244**	**3,778**	**23,022**	**22,148**
Term borrowings	**3,493**	-	**3,493**	**3,493**
Debt securities	**3,520**	-	**3,520**	**3,434**
Due to banks	**8,543**	-	**8,543**	**8,468**
Other financial liabilities	**85**	-	**85**	**85**
Total financial liabilities	**15,641**	-	**15,641**	**15,480**

The table below analyses financial instruments not measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

AZN'000	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Cash and cash equivalents	1,263	-	**1,263**	**1,263**
Loans and advances to customers	17,879	4,338	**22,217**	**21,438**
Finance lease	-	-	-	-
Other financial assets	2,578	-	**2,578**	**2,578**
Total financial assets	**21,720**	**4,338**	**26,058**	**25,279**
Term borrowings	9,854	-	**9,854**	**9,854**
Debt securities	7,385	-	**7,385**	**8,563**
Due to banks	2,022	-	**2,022**	**2,337**
Other financial liabilities	66	-	**66**	**66**
Total financial liabilities	**19,327**	-	**19,327**	**20,820**

Mr. Spartak Tetrashvili
General Director

Mr. Chingiz Abdullayev
Chief Accountant