

**"MCB LEASING"**  
**CLOSED JOINT STOCK COMPANY**  
**REPORT OF INDEPENDENT AUDITORS**  
**AND**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2017**

**"MCB LEASING" CJSC**

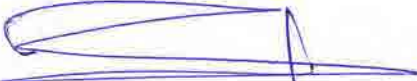
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## STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of "MCB Leasing" Closed Joint Stock Company (the "Company"). They have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on judgements and estimates by management.

The Company maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Company's administrative procedures and internal reporting requirements, operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

  
Mr. Ramal Jafarov  
Chief Executive Officer

  
Mr. S. Muzammil Noor  
Chief Finance Officer

Baku, Republic of Azerbaijan

16 January 2018



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## REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of "MCB Leasing" CJSC

### *Opinion*

We have audited the financial statements of "MCB Leasing" Closed Joint Stock Company (the Company), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the "MCB Leasing" Closed Joint Stock Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Basis for Opinion*

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

### *Management's responsibility for the financial statements*

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

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

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



**Auditor's responsibility for the Financial Statements**

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

*Moore Stephens Azərbaycan*


Baku, Republic of Azerbaijan

16 January 2018



**"MCB LEASING" CJSC**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2017**  
**(Expressed in Azerbaijani manats)**

	Note	2017	2016
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	54,175	69,854
Intangible assets	6	-	579
Net investment in finance lease	7	3,035,266	3,969,421
Deferred tax asset	15	304,477	483,396
<b>Total non-current assets</b>		<b>3,393,918</b>	<b>4,523,250</b>
<b>Current assets</b>			
Net investment in finance lease	7	3,597,242	3,773,752
Advances, prepayments and other current assets	8	161,299	158,317
Cash and cash equivalents	9	1,083,727	1,333,166
<b>Total current assets</b>		<b>4,842,268</b>	<b>5,265,235</b>
<b>Total Assets</b>		<b>8,236,186</b>	<b>9,788,485</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Secured loans	10	4,491,656	4,903,180
Other bank loans and borrowings	10	500,000	398,408
<b>Total non-current liabilities</b>		<b>4,991,656</b>	<b>5,301,588</b>
<b>Current liabilities</b>			
Current portion of secured loans	10	-	174,000
Current portion of other bank loans and borrowings	10	-	1,600,174
Other current liabilities	11	137,677	240,346
<b>Total current liabilities</b>		<b>137,677</b>	<b>2,014,520</b>
<b>Total Liabilities</b>		<b>5,129,333</b>	<b>7,316,108</b>
<b>Equity</b>			
Share capital	12	4,283,675	4,283,675
Accumulated loss		(1,176,822)	(1,811,298)
<b>Total Equity</b>		<b>3,106,853</b>	<b>2,472,377</b>
<b>Total Equity and Liabilities</b>		<b>8,236,186</b>	<b>9,788,485</b>

  
 Mr. Ramal Jafarov  
 Chief Executive Officer



  
 Mr. S. Muzammil Noor  
 Chief Finance Officer

Baku, Republic of Azerbaijan

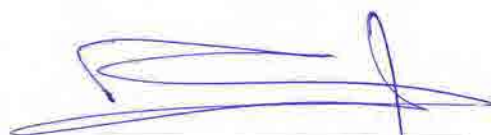
16 January 2018

The financial statements set out on pages 6-30 were approved and signed by the management on 16 January 2018.

The notes set out on pages 10-30 form an integral part of these financial statements

**"MCB LEASING" CJSC**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
**(Expressed in Azerbaijani manats)**

	Note	2017	2016
Interest income from finance leases		1,753,278	1,612,075
Interest expense		(504,704)	(497,581)
<b>Net interest income</b>		<b>1,248,574</b>	<b>1,114,494</b>
Fee, commission and brokerage income		89,009	98,804
Net (loss)/gain on foreign exchange translation		188,585	(564,749)
Other income		7,950	381
<b>Operating income</b>		<b>1,534,118</b>	<b>648,930</b>
Operating expenses	13	(439,550)	(417,338)
Administrative expenses	14	(241,866)	(235,785)
<b>(Loss)/profit before provisions against receivables</b>		<b>852,702</b>	<b>(4,193)</b>
Provisions for receivables	8	(39,307)	33,128
<b>Profit/(loss) before income tax</b>		<b>813,395</b>	<b>28,935</b>
Income tax	15	(178,919)	(4,244)
<b>Profit/(loss) after income tax</b>		<b>634,476</b>	<b>24,691</b>
Other comprehensive income		-	-
<b>Total comprehensive profit/(loss) for the year</b>		<b>634,476</b>	<b>24,691</b>



Mr. Ramal Jafarov  
Chief Executive Officer




Mr. S. Muzammil Noor  
Chief Finance Officer

Baku, Republic of Azerbaijan

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**"MCB LEASING" CJSC**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
**(Expressed in Azerbaijani manats)**

Statement of Changes in Equity	Charter Capital	Accumulated profit/(loss)	Total equity
Balance at 1 January 2016	4,283,675	(1,835,989)	2,447,686
Total comprehensive profit for the year	-	24,691	24,691
Increase in charter capital	-	-	-
<b>Balance at 31 December 2016</b>	<b>4,283,675</b>	<b>(1,811,298)</b>	<b>2,472,377</b>
Total comprehensive profit for the year	-	634,476	634,476
Increase in charter capital	-	-	-
<b>Balance at 31 December 2017</b>	<b>4,283,675</b>	<b>(1,176,822)</b>	<b>3,106,853</b>

  
 Mr. Ramal Jafarov  
 Chief Executive Officer

  
 Mr. S. Muzammil Noor  
 Chief Finance Officer



Baku, Republic of Azerbaijan

16 January 2018


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**"MCB LEASING" CJSC**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
**(Expressed in Azerbaijani manats)**

	Note	2017	2016
<b>Cash flows from operating activities</b>			
Profit/(loss) before income tax		813,395	28,935
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	5	15,729	16,556
Amortisation of intangible assets	6	579	2,317
Net loss/(gain) on foreign exchange operations		188,585	564,749
Provision for receivables		39,307	(33,128)
		<u>1,057,595</u>	<u>579,429</u>
<b>Changes in working capital</b>			
Decrease/(increase) in net investment in finance lease		1,110,665	(426,226)
(Increase)/decrease in advances, prepayments and other current assets		(42,289)	41,802
(Decrease)/increase in other current liabilities		(102,669)	94,391
		<u>965,707</u>	<u>(290,033)</u>
<b>Net cash generated/(used) in operating activities</b>		<u>2,023,302</u>	<u>289,396</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	5	(50)	(942)
<b>Net cash outflow to investing activities</b>		<u>(50)</u>	<u>(942)</u>
<b>Cash flows from financing activities</b>			
(Repayment of)/proceeds from loans		(2,272,691)	74,740
<b>Net cash outflow to financing activities</b>		<u>(2,272,691)</u>	<u>74,740</u>
Net increase in cash and cash equivalents		<u>(249,439)</u>	<u>363,194</u>
<b>Cash and cash equivalents at the beginning of the year</b>	9	<u>1,333,166</u>	<u>969,972</u>
<b>Cash and cash equivalents at the end of the year</b>	9	<u>1,083,727</u>	<u>1,333,166</u>

  
Mr. Ramal Jafarov  
Chief Executive Officer



  
Mr. S. Muzammil Noor  
Chief Finance Officer

Baku, Republic of Azerbaijan

16 January 2018

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**"MCB LEASING" CJSC**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
**(Expressed in Azerbaijani manats)**

**1. BACKGROUND**

**a) Principal Activities**

"MCB Leasing" CJSC (the "Company") was incorporated on 16 October 2009 and domiciled in the Republic of Azerbaijan. The Company is a closed joint stock company limited by shares and was set up in accordance with Azerbaijani regulations. The Company was initially registered under the registration number 1701045991 dated 15 October 2009 at the Ministry of Taxes of the Republic of Azerbaijan.

The Company's principal business activity is provision of finance leases within the Republic of Azerbaijan. The Company leases out various types of industrial equipment, equipment used in medicine, public transport, infrastructure projects and for other business needs. In addition, the Company leases out cars, trucks and rail cars. The Company purchases assets for lease from suppliers in the Republic of Azerbaijan and abroad.

The Company's registered address is: 49 B Tbilisi Ave. Baku AZ1065, Republic of Azerbaijan. MCB Bank Limited, a public limited company listed on stock exchanges in Pakistan, owns 99.94% of the issued share capital and is the Company's parent company and ultimate controlling company. As at 31 December 2017 and 31 December 2016 the following shareholders owned the share capital of the Company:

	<u>31 December 2017</u> <u>Ownership interest, %</u>	<u>31 December 2016</u> <u>Ownership interest, %</u>
MCB Bank Limited (Pakistan)	99.94	99.94
Mr. Ramal Jafarov (Individual person)	0.06	0.06
<b>Total</b>	<b>100</b>	<b>100</b>

**b) Operating Environment**

The Company's business activities are substantially influenced by the economic, political and regulatory environment of the Republic of Azerbaijan and international agreements. The general risks to businesses include the possibility for rapid changes in government policies, economic conditions, the tax regime and foreign currency regulations and include the substantial use of cash in setting business transactions. Management believes that it has adequacy provided for tax liabilities based on its interpretation of the applicable tax legislation. Management believes that they are taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances.

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

**a) Summary of significant accounting policies and basis of design**

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards except where stated. The Company maintains the primary accounting records in accordance with Azerbaijani regulations. The financial statements have been prepared from the Company's management accounts and adjusted to the extent possible in order to conform in all material respects with the International Financial Reporting Standards. The financial statements have been prepared on a going concern basis under the historical cost convention. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.



**"MCB LEASING" CJSC**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
**(Expressed in Azerbaijani manats)**

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**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)**

**b) Foreign currency exchange**

*i. Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency") which is Azerbaijani manats ("AZN"). These financial statements are presented in AZN, which is the Company's functional currency.

*ii. Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates of the Central Bank of the Republic of Azerbaijan ("CBAR") at the date of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

At 31 December 2017 and 31 December 2016 the official exchange rates of the Manat related to currencies mentioned below and set by the Central Bank of the Republic of Azerbaijan were as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
1 USD toAZN	1.7001	1.7707

**3. SIGNIFICANT ACCOUNTING POLICIES**

**a) Basis of presentation and significant accounting policies**

These financial statements cover the financial statements of the Company for the year ended 31 December 2017.

The financial statements of the Company that are prepared in accordance with the accounting policy have been developed using the same reporting period. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. The reporting currency of the entity's functional currency (AZN) is based on the accounting records, prepared on the basis of the transactions. The International Accounting Standards Board approved the financial statements of the International Financial Reporting Standards and interpretations approved by the Standing Committee's interpretation. The following significant accounting policies have been consistently applied in the preparation of the financial statements.

**b) Recognition and measurement of financial instruments**

The Company recognises financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligation of the instrument. Ordinary purchase and sale of the financial assets and liabilities is recognised using settlement date accounting. Ordinary purchases of financial instruments that will be subsequently measured at a fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognised at a fair value plus, in the case of a financial asset or financial liability not at a fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.



**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**b) Recognition and measurement of financial instruments (continued)**

***Classification and subsequent measurement of financial liabilities***

- Financial liabilities comprise, trade and most other payables and amounts due to related parties.
- Financial liabilities are measured subsequently at amortised cost using the effective interest method.
- All interest-related charges are included within 'finance costs'.

***Recognition and measurement of lease***

Leases are accounted for in accordance with IAS 17 and IFRIC 4. When assets are leased out under finance lease, the present value of the minimum lease payments is recognised as a receivable.

***Inception of the lease***

The inception of the lease is considered to be the date of the lease agreement, or the date of commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties involved in the transaction, and shall specifically set forth the principal terms of the transaction.

***Commencement of the lease term***

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

***Impairment of lease receivables***

An allowance for impairment is established if there is objective evidence that the Company will not be able to collect the amount due according to the original contractual terms of the lease. The amount of the provision is the difference between the carrying amount at the time the lease is considered doubtful and the recoverable amount, being the present value of expected proceeds arising from sale of the leased assets discounted at the original effective interest rate of the lease.

The provision amount also covers losses when there is objective evidence that probable losses are present in components of the lease portfolio at the reporting date. They have been estimated based on the future specific losses inherent in the leases and upon historical patterns of losses in each component and the economic climate in which the clients operate.

**c) Cash and cash equivalents**

Cash and cash equivalents include cash in hand and cash in banks and are subject to insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

**d) Property, plant and equipment**

Property and equipment and intangible assets are stated at cost, less accumulated depreciation and provision for impairment. Cost comprises of construction cost or purchase price, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the construction cost or purchase price.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is retired.

All items of equipment are stated at cost less accumulated depreciation and impairment losses, if any.



**"MCB LEASING" CJSC**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
**(Expressed in Azerbaijani manats)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**d) Property, plant and equipment (continued)**

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

**e) Depreciation**

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost amounts to their residual values over their estimated useful life:

Furniture and fixtures	10%
Computer and office equipment	20%
Vehicles	20%
Other fixed assets	20%

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

**f) Intangible assets**

Intangible assets are initially recognized at cost. Intangible assets are carried at cost less any accumulated amortization and any impairment losses. Amortization is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Computer software	33%
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**g) Amortization**

Amortization is charged to profit or loss on straight-line basis over the estimated useful lives of intangible assets.

**h) Revenue recognition**

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gains / losses on termination of lease contracts are recognized as income when these are realized.

**i) Financial instruments**

***Trade and other receivables***

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. For receivables from customers, delinquency in payments (more than 30 days overdue) is considered a primary indicator that this category of receivables is impaired. For other categories of receivables the following additional principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

**"MCB LEASING" CJSC**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
**(Expressed in Azerbaijani manats)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**i) Financial instruments (continued)**

***Trade and other receivables (continued)***

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Company obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is an 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;

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

***Trade and other payables***

Trade and other payables are accrued when the counterparty performed its obligations under the contract. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market with maturities less than 12 months after the reporting date. The Company's loans and receivables comprise of trade and other receivables and due from related parties in the statement of financial position.

***Financial assets at a fair value through profit or loss***

Financial assets at a fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. The Company did not hold any financial assets at a fair value through profit or loss during the reporting period.

***Derecognition of financial assets and liabilities***

**Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of the Company of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

*Derecognition of financial assets and liabilities (continued)*

**Financial assets (continued)**

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Company either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Company reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Company assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Company has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

**Financial liabilities**

A financial liability is derecognised when the obligation is discharged, cancelled, or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

**Offset of financial assets and liabilities**

Financial assets and liabilities are offset and reported net on the statement of financial position when the Company has a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Company does not offset the transferred asset and the associated liability.

j) Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

k) Current taxation

**Income taxes**

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



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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**k) Current taxation (continued)**

***Income taxes (continued)***

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

**l) Deferred Taxation**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method

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

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

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

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

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

In addition to this there are other taxes imposed in Azerbaijan Republic which are assessed on the Company's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

**m) Finance income and costs**

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial assets at fair value through profit or loss and impairment losses recognised on financial assets (other than trade receivables).

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**n) Pensions**

The Entity does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such an expense is charged in the period the related salaries are earned.

**o) Provisions**

Provisions are recognised when the Entity has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

**p) Staff costs and related contributions**

Wages, salaries, contributions to the state pension and social insurance funds in Azerbaijan Republic, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

**q) Foreign currency transactions**

These financial statements are presented in Azerbaijani manat as this is the functional currency of the Entity. Transactions denominated in other currencies are translated at the rates prevailing on the date of the transaction. Cash receipts and payments arising from transactions in a foreign currency are recorded in the Entity's reporting currency by applying the exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments to the foreign currency amount. Cash balances held in a foreign currency are reported using the closing rate, which is the spot exchange rate at the reporting date. Gains or losses resulting from foreign currency transactions are taken to the Statement of Comprehensive Income.

**r) Contingencies**

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognised in the financial statements but disclosed when as inflow of economic benefits is probable.

**4. STANDARDS, INTERPRETATIONS AND AMENDMENTS**

The following standards and guidance had come into effect on 31 December 2017 and further:

**IFRS 12 "Disclosure of Interests in Other Entities" (Effective date 1 January 2017)**

The amendment clarifies that, except for the requirements to disclose summarized financial information, the requirements of IFRS 12 apply to interests (or a portion thereof) in a subsidiary, joint venture or associate that is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5 Non-current Assets held for Sale and Discontinued Operations.

**IFRS 15 "Revenue from Contracts with Customers" (Effective date 1 January 2018)**

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.



**4. STANDARDS, INTERPRETATIONS AND AMENDMENTS (CONTINUED)**

**IFRS 9 "Financial instruments" (Effective date 1 January 2018)**

In July 2014 IASB issued a finalized version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 Financial instruments:

Recognition and Measurement.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics.
- **Classification and measurement of financial liabilities.** Financial liabilities are classified in a similar manner to under IAS 39 however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment.** The 2014 version of IFRS 9 introduces an "expected credit loss" model for the measurement.
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake, risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition.** The requirements for derecognition of financial assets and liabilities are carried forward from IAS 39.

**IFRS 16 "Leases"(Effective date 1 January 2019)**

The changes for lessors, and for lessees under current finance leases, will be limited, but the standard will significantly affect the financial statements of lessees under what are currently treated as operating leases.

Some matters have been carried across without substantive amendment from IAS 17:

- The definition of a lease (although some clarification has been provided on whether a contract conveys the right to use a particular asset and to benefit from its use);
- The definition of the lease term (although examples have been added to clarify the application of the requirements in relation to optional extension and termination clauses, and there is more guidance on changes in the lease term);
- The requirement to split contracts which contain a lease between their lease and service elements (although if this is too complex, entities are allowed to treat the whole contract as though it were a lease, so long as it is not an embedded derivative and there is some quite pointed guidance on ensuring that the split is based on market values and not by reference to the nominal contractual terms);
- The treatment of leases which also qualify as investment properties under IAS 40;
- The basic accounting treatment for leases previously classified as finance leases, both for lessors and lessees; and
- The distinction between finance and operating leases for lessors.

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**5. PROPERTY, PLANT AND EQUIPMENT**

	Office and computer equipment	Vehicles	Furniture, fixtures and others	Other fixed assets	Total
<b>COST</b>					
At 1 January 2016	52,475	82,614	73,680	32,881	241,650
Additions	942	-	-	-	942
At 31 December 2016	53,417	82,614	73,680	32,881	242,592
Additions	50	-	-	-	50
At 31 December 2017	53,467	82,614	73,680	32,881	242,642
<b>DEPRECIATION</b>					
At 1 January 2016	(45,719)	(54,082)	(33,063)	(23,318)	(156,182)
Charge for the year	(2,023)	(8,560)	(4,061)	(1,912)	(16,556)
At 31 December 2016	(47,742)	(62,642)	(37,124)	(25,230)	(172,738)
Charge for the year	(1,984)	(8,560)	(3,655)	(1,530)	(15,729)
At 31 December 2017	(49,726)	(71,202)	(40,779)	(26,760)	(188,467)
<b>NET BOOK VALUE</b>					
At 31 December 2016	5,675	19,972	36,556	7,651	69,854
At 31 December 2017	3,741	11,412	32,901	6,121	54,175

In the opinion of the management there was no impairment on property and equipment as at 31 December 2017 (2016: nil)

**6. INTANGIBLE ASSETS**

	2017	2016
<b>Gross carrying amount</b>		
Balance at January 1,	6,950	6,950
Additions	-	-
Balance at December 31,	6,950	6,950
<b>Accumulated amortisation</b>		
Balance at January 1	(6,371)	(4,054)
Charge for the year	(579)	(2,317)
Balance at December 31	(6,950)	(6,371)
Carrying amount at December 31	-	579

**7. NET INVESTMENT IN FINANCE LEASE**

	2017			Total
	Not later than one year	Later than one and less than five years	Over five years	
Lease rental receivable	4,760,597	3,537,663	-	8,298,260
Minimum lease payments	4,760,597	3,537,663	-	8,298,260
Finance charges for future period	(1,163,355)	(502,397)	-	(1,665,752)
Present value of minimum lease payments	3,597,242	3,035,266	-	6,632,508



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**7. NET INVESTMENT IN FINANCE LEASE(CONTINUED)**

	2016			Total
	Not later than one year	Later than one and less than five years	Over five years	
Lease rental receivable	5,122,872	4,749,276	5,330	9,877,478
Minimum lease payments	5,122,872	4,749,276	5,330	9,877,478
Finance charges for future period	(1,349,120)	(785,064)	(121)	(2,134,305)
Present value of minimum lease payments	3,773,752	3,964,212	5,209	7,743,173

**8. ADVANCES, PREPAYMENTS AND OTHER CURRENT ASSETS**

	2017	2016
Receivables overdue	130,093	95,205
Provision on overdue receivables	(41,182)	(1,875)
<b>Receivables overdue – net</b>	<b>88,911</b>	<b>93,330</b>
Accrued income	54,460	59,130
Prepaid expenses	7,170	4,665
Advances to employees	10,000	-
Other receivables	758	1,192
	<b>161,299</b>	<b>158,317</b>

The movement in allowance for impairment of trade receivables can be reconciled as follows:

	2017	2016
Receivables overdue	(1,875)	(35,003)
Provision on overdue receivables	(39,307)	33,128
<b>Receivables overdue – net</b>	<b>(41,182)</b>	<b>(1,875)</b>

**9. CASH AND CASH EQUIVALENTS**

	2017	2016
Current accounts with banks in local currency	144,425	145,787
Current accounts with banks in foreign currency	56,375	1,187,379
Deposits accounts	882,927	-
<b>Total cash and cash equivalents</b>	<b>1,083,727</b>	<b>1,333,166</b>

The Company has deposit accounts in two local banks, and the total value of these deposits is AZN 882,927 (2016: nil). The interest rate for both of the deposits is 6% per annum. The deposit of AZN 350,000 will mature in one month; the other deposit of AZN 532,927 has no predetermined maturity date.



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**10. SECURED LOANS, OTHER BANK LOANS AND BORROWINGS**

Secured loans comprise:

	<u>2017</u>	<u>2016</u>
<b>Banks</b>		
Subsidiary of the Parent Bank, 3 month's LIBOR + 5.5%	4,491,656	4,678,180
Local Bank, fixed annual rate 4%	-	399,000
<b>Total</b>	<u>4,491,656</u>	<u>5,077,180</u>
<b>Current portion</b>	-	174,000
<b>Non-current portion</b>	<u>4,491,656</u>	<u>4,903,180</u>

Other bank loans comprise:

	<u>2017</u>	<u>2016</u>
<b>Banks and other Financial Institution</b>		
Local Banks, fixed annual rate 12.7%	-	303,359
Local Financial Institution, fixed annual rate 18%	500,000	500,000
Foreign Financial Institution, 6 months LIBOR + 6.25%	-	1,195,223
<b>Total</b>	<u>500,000</u>	<u>1,998,582</u>
<b>Current portion</b>	-	1,600,174
<b>Non-current portion</b>	<u>500,000</u>	<u>398,408</u>

Total interest expense on above loans during the years ended 31 December 2017 and 2016 amounted to AZN 504,704 and AZN 497,581, respectively.

**11. OTHER CURRENT LIABILITIES**

	<u>2017</u>	<u>2016</u>
Advances received from lessees	73,291	158,347
Payable to suppliers	6,164	20,847
Accrued expenses	58,222	61,152
<b>Total other current liabilities</b>	<u>137,677</u>	<u>240,346</u>

**12. SHARE CAPITAL**

As of 31 December 2017 the Company's authorized, issued and fully paid up share capital amounted to AZN 4,283,675 and comprised of 4,283,675 ordinary shares with a par value of AZN 1 (31 December 2016: AZN 4,283,675 comprised of 4,283,675 ordinary shares). Each share entitles a shareholder to one vote.

**13. OPERATING EXPENSES**

	<u>2017</u>	<u>2016</u>
Salary and bonuses	354,744	336,262
Social security costs	78,044	73,978
Staff medical and compulsory insurance	6,762	7,098
<b>Total operating expenses</b>	<u>439,550</u>	<u>417,338</u>

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**14. ADMINISTRATIVE EXPENSES**

	<u>2017</u>	<u>2016</u>
Office rent	102,000	102,000
Service charges on borrowing	29,009	12,872
Security	16,800	22,264
Bank charges	16,413	22,556
Depreciation	15,729	16,556
Professional services fees	12,640	11,040
Vehicle running costs	12,011	9,281
Audit fee	8,130	8,130
Communication	7,886	7,783
Utilities	6,288	4,157
Travelling expenses	4,153	3,403
Office supplies	3,249	3,944
State legal fees	2,948	2,636
Insurance	2,146	3,544
Amortisation	579	2,317
Repair and maintenance	355	307
Taxes other than income tax	159	1,004
Other expenses	1,371	1,991
<b>Total administrative expenses</b>	<b><u>241,866</u></b>	<b><u>235,785</u></b>

**15. INCOME TAXES**

During the years ended 31 December 2017 and 2016, the corporate profit tax rate in Azerbaijan was equal to 20%. The tax rate is expected to remain the same in the following fiscal year. Deferred taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2017 and 2016 comprise:

	<u>2017</u>	<u>2016</u>
Tax losses of 2017 carried forward	1,522,138	2,391,658
Temporary differences	249	25,324
<b>Total deductible temporary differences</b>	<b><u>1,522,387</u></b>	<b><u>2,416,982</u></b>
<b>Deferred tax asset at the statutory tax rate (20%)</b>	<b><u>304,477</u></b>	<b><u>483,396</u></b>

The movement of deferred income tax asset during the years ended 31 December 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
<b>Deferred tax asset as at 1 January</b>	483,396	487,640
Change in the deferred tax assets for the period charged to income statement	(178,919)	(4,244)
<b>Deferred tax asset as at 31 December</b>	<b><u>304,477</u></b>	<b><u>483,396</u></b>

Relationships between tax expenses and accounting profit for the years ended 31 December 2017 and 2016 are explained as follows:

	<u>2017</u>	<u>2016</u>
<b>(Loss)/Profit before income tax</b>	813,395	28,935
Tax benefit / (expense) at the statutory tax rate 20%	(162,680)	(5,787)
Tax effect of permanent differences	-	(225)
Tax effect of temporary differences	(50)	8,897
<b>Income tax benefit carried forward / (expense)</b>	<b><u>(162,730)</u></b>	<b><u>2,885</u></b>



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**15. INCOME TAXES (CONTINUED)**

	2017	2016
Income tax benefit carried forward / (expense)	(162,730)	2,885
Deferred tax movement	(16,189)	(7,129)
<b>Income tax</b>	<b>(178,919)</b>	<b>(4,244)</b>

**16. RELATED PARTY TRANSACTIONS**

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

- a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Company that gives them significant influence over the Company; and that have joint control over the Company;
- b) Associates – enterprises on which the Company has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- c) Joint ventures in which the Company is a venture;
- d) Members of key management personnel of the Company or its parent;
- e) Close members of the family of any individuals referred to in (a) or (d);
- f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- g) Post-employment benefit plans for the benefit of employees of the Company, or of any entity that is a related party of the Company.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely its legal form.

The Company had the following balances outstanding with related parties as at 31 December 2017 and 2016:

	2017		2016	
	Related party balances	Total category as per financial statements	Related party balances	Total category as per financial statements
<b>Cash and cash equivalents</b>	<b>56,357</b>	<b>1,083,727</b>	<b>29,405</b>	<b>1,333,166</b>
Parent Company	56,357		29,405	-
<b>Advances, prepayments and other current assets</b>	<b>10,000</b>	<b>161,299</b>	<b>-</b>	<b>158,317</b>
Key management personnel	10,000		-	-
<b>Net investment in finance lease</b>	<b>54,914</b>	<b>6,632,508</b>	<b>64,294</b>	<b>7,743,173</b>
Key management personnel	54,914		64,294	-
<b>Secured loans</b>	<b>4,491,656</b>	<b>4,491,656</b>	<b>4,678,181</b>	<b>5,077,180</b>
Shareholders	4,491,656		4,678,181	-
<b>Other current liabilities</b>	<b>58,222</b>	<b>137,677</b>	<b>48,560</b>	<b>240,346</b>
Shareholders	58,222		48,560	-
Other related party	-		-	-

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**16. RELATED PARTY TRANSACTIONS (CONTINUED)**

The Company had the following transactions with related parties for the years ended 31 December 2017 and 2016:

	2017		2016	
	Related party transactions	Total category as per financial statements	Related party transactions	Total category as per financial statements
<b>Interest income from finance leases</b>	<b>6,608</b>	<b>1,753,278</b>	<b>4,953</b>	<b>1,612,075</b>
Key management personnel	6,608		4,953	-
<b>Interest expense</b>	<b>(332,266)</b>	<b>(504,704)</b>	<b>(277,868)</b>	<b>(497,581)</b>
Shareholders	(332,266)		(277,868)	-
<b>Operating expenses</b>	<b>(279,665)</b>	<b>(439,550)</b>	<b>(208,739)</b>	<b>(417,338)</b>
Key management personnel	(279,665)		(208,739)	-

**17. COMMITMENTS AND CONTINGENCIES**

***Legal proceedings***

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

***Tax legislation***

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

The Azerbaijani tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may now be challenged. As a result, significant additional taxes, penalties and interest may be assessed. In Azerbaijan, fiscal periods remain open to reviews by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, such reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained. Accordingly no provision for potential tax liabilities was recorded as of 31 December 2017(2016: no provision).

In accordance with Article 18 of the Tax Code of the Republic of Azerbaijan effective from 1 January 2002, tax authorities can make transfer-pricing adjustments and impose additional tax liabilities in respect of transactions between inter-related entities, which are carried out at non-market prices, and all transactions, where the price differs from the market price by more than 30%.

***Capital expenditure commitments***

The Company has no outstanding commitments as of 31 December 2017 (31 December 2016: nil).



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**18. FINANCIAL ASSETS AND LIABILITIES**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Azerbaijan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be out dated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

***Financial assets carried at amortised cost***

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade and other receivables, due from related parties, investments held to maturity approximate fair values.

***Financial liabilities carried at amortised cost***

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of trade and other payables and due to related parties approximate fair values.

**19. FINANCIAL RISK MANAGEMENT**

The Company's activities expose it to a variety of financial risks summarised as market risk, credit risk and liquidity risk categories Risk management is carried out by a management team and consist of budgeting, forecasting and market review functions.

**(a) Credit risk**

Credit risk is the risk that a counter party fails to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits etc.

The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's finance lease transactions with counterparties resulting in financial assets.

The Credit Policy of the Company, which was approved by the Management and Supervisory Board, sets forth principles and rules of financial leasing activity, as well as establishing main indicators of procedures with regard to the activity, mitigating the Company's risks, determining profitability and serving as guidance for all employees while they perform their duties.

There are certain limits set for the lease portfolio in order to ensure its diversification and minimization of possible credit risks. These limits are, as follows:

- Limits for business portfolio;
- Limits by sectors of economy; and
- Concentration limits

The limits are developed and revised by the management on an annual basis. In case of significant change in the market environment, the limits may also be reviewed. A proposal for limits change is provided firstly to the Credit Committee and next to the Management Board for approval and then it is approved by Supervisory Board.

The Leasing Operations department controls maintenance of all limits on a regular basis and some of them (maximum exposure to a single borrower or group of related borrowers, maximum exposure to related parties) are controlled before new lease issue.

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**19. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Credit risk (continued)**

The Credit Policy of the Company regulates the authorities and responsibilities of each body of the Company involved in lending process and determine the limits for credit granting approval, the rules for monitoring of leases, and lending procedures etc.

The Company's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Credit Committee of the Company ("CC") is the collective body which operates and reports to the Management Board. The overall role of CC is to control and manage all leasing operations approved in the framework of strategic and business plan of the Company.

Credit Committee controls procedures and operations of leasing arrangements in accordance with the approved Credit Policy of the Company.

As at 31 December 2017 and 31 December 2016 there were no significant overdue or impaired receivables.

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, summarised as follows:

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	9	1,083,727	1,333,166
Receivable from customers	8	143,371	152,460
Net investment in finance lease	7	6,632,508	7,743,173
<b>Total carrying amount</b>		<b><u>7,859,606</u></b>	<b><u>9,228,799</u></b>

The company has an effective rental monitoring system which allows it to evaluate customers' credit worthiness and identify the potential problem accounts. Allowance for potential lease and instalment is maintained at the level which, in the judgment of management, is adequate to provide potential losses on lease and instalment that can be reasonably anticipated. The credit risk for cash at banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

**(a) Credit risk (continued)**

Some of the unimpaired receivables from customers are past due as at the reporting date. Financial assets past due but not impaired can be shown as below:

	<u>2017</u>	<u>2016</u>
<b>Receivables from customers (Note 8)</b>	130,093	95,205

In respect of receivables from customers, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Based on historical information about customer default rates, management considers the credit quality of receivables from customers that are not past due or impaired to be good.



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**19. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly with respect to loans in foreign currency.

It assumes a  $\pm 5\%$  change in this exchange rate and the sensitivity analysis is based on the Company's foreign currency financial instruments held at each reporting date, with all other variables held constant:

	Profit/(loss) before tax		Equity	
	2017	2016	2017	2016
AZN weakening 5% / 5%	(224,675)	(237,291)	(179,740)	(189,833)
AZN strengthening 5% / 5%	224,675	237,291	179,740	189,833

The tables below summarise the Company's exposure to foreign currency exchange rate risk at 31 December 2017 and 31 December 2016. Included in the table are the Company's financial instruments at carrying amounts, categorised by currency:

	Notes	2017		Total
		AZN	USD	
<b>Financial assets:</b>				
Cash and cash equivalents	9	1,027,352	56,375	1,083,727
Other receivables	8	143,371	-	143,371
Net investment in finance lease	7	6,632,508	-	6,632,508
		<b>7,803,231</b>	<b>56,375</b>	<b>7,859,606</b>
<b>Financial liabilities:</b>				
Secured loans	10	-	4,491,656	4,491,656
Other bank loans and borrowings	10	500,000	-	500,000
Other current liabilities	11	79,455	58,222	137,677
		<b>579,455</b>	<b>4,549,878</b>	<b>5,129,333</b>
		<b>7,223,776</b>	<b>(4,493,503)</b>	<b>2,730,273</b>
	Notes	2016		Total
		AZN	USD	
<b>Financial assets:</b>				
Cash and cash equivalents	9	145,787	1,187,379	1,333,166
Other receivables	8	152,460	-	152,460
Net investment in finance lease	7	7,743,173	-	7,743,173
		<b>8,041,420</b>	<b>1,187,379</b>	<b>9,228,799</b>
<b>Financial liabilities:</b>				
Secured loans	10	399,000	4,678,180	5,077,180
Other bank loans and borrowings	10	803,359	1,195,223	1,998,582
Other current liabilities	11	180,561	59,785	240,346
		<b>1,382,920</b>	<b>5,933,188</b>	<b>7,316,108</b>
		<b>6,658,500</b>	<b>(4,745,809)</b>	<b>1,912,691</b>

**(c) Interest rate risk**

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Leases are generally granted at a rate of interest fixed for the duration of the lease and the majority of borrowings are at variable interest rates.

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**19. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Interest rate risk (continued)**

The following table illustrates the sensitivity of variable rate loans to a reasonably possible change in interest rates ( $\pm 1\%$ ), with all other variables held constant.

	Impact on profit for year	
	2017	2016
Interest rate +1%	(44,917)	(58,734)
Interest rate -1%	44,917	58,734

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event of unexpected movements. The Management Board monitors on a daily basis and sets limits on the level of mismatch of interest rate re-pricing that may be undertaken. In the absence of any available hedging instruments, the Company normally seeks to match its interest rate positions. At present, the Company manages its interest rate risk by matching, where possible, its maturity and/or re-pricing positions. In addition, the Company's monthly interest margins are continually reviewed in order to re-price its assets when deemed appropriate.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates:

	2017						Total
	Up to 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Non-interest bearing	
<b>Financial assets:</b>							
Cash and cash equivalents	882,927	-	-	-	-	200,800	1,083,727
Other receivables	-	-	-	-	-	143,371	143,371
Net investment in finance lease	418,031	834,615	1,782,620	3,597,242	-	-	6,632,508
	<b>1,300,958</b>	<b>834,615</b>	<b>1,782,620</b>	<b>3,597,242</b>	<b>-</b>	<b>344,171</b>	<b>7,859,606</b>
<b>Financial liabilities:</b>							
Secured loans	-	-	-	4,491,656	-	-	4,491,656
Other bank loans and borrowings	-	-	-	500,000	-	-	500,000
Other current liabilities	-	-	-	-	-	137,677	137,677
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,991,656</b>	<b>-</b>	<b>137,677</b>	<b>5,129,333</b>
<b>Total interest re-pricing gap</b>	<b>418,031</b>	<b>834,615</b>	<b>1,782,620</b>	<b>(1,394,414)</b>	<b>-</b>	<b>1,089,421</b>	<b>2,730,273</b>



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**19. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Interest rate risk (continued)**

	2016						Total
	Up to 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Non-interest bearing	
<b>Financial assets:</b>							
Cash and cash equivalents	-	-	-	-	-	1,333,166	1,333,166
Other receivables	-	-	-	-	-	152,460	152,460
Net investment in finance lease	307,068	628,655	2,838,029	3,964,212	5,209		7,743,173
	<b>307,068</b>	<b>628,655</b>	<b>2,838,029</b>	<b>3,964,212</b>	<b>5,209</b>	<b>1,485,626</b>	<b>9,228,799</b>
<b>Financial liabilities:</b>							
Secured loans	-	-	174,000	4,903,180	-	-	5,077,180
Other bank loans and borrowings	30,368	60,696	1,509,110	398,408	-	-	1,998,582
Other current liabilities	-	-	-	-	-	240,346	240,346
<b>Total financial liabilities</b>	<b>30,368</b>	<b>60,696</b>	<b>1,683,110</b>	<b>5,301,588</b>	<b>-</b>	<b>240,346</b>	<b>7,316,108</b>
<b>Total interest re-pricing gap</b>	<b>276,700</b>	<b>567,959</b>	<b>1,154,919</b>	<b>(1,337,376)</b>	<b>5,209</b>	<b>1,245,280</b>	<b>1,912,691</b>

**(d) Fair value measurement**

Assets and liabilities measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There are not any non-financial instruments held at fair value. As all the financial instruments are measured at amortised cost, this disclosure is not relevant.

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**19. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(e) *Liquidity risk*

Liquidity risk reflects an inability of an enterprise in raising funds to meet its commitments. The Company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

The table below presents the cash flows payable by the Company under non-derivative financial liabilities by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows. Therefore, they do not reconcile to the discounted cash flows in the statement of financial position. IFRS 7 does not require such reconciliation.

	2017						Total
	Up to 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Non-interest bearing	
<b>Financial liabilities:</b>							
Secured loans	-	-	-	4,491,656	-	-	4,491,656
Other bank loans and borrowings	-	-	-	500,000	-	-	500,000
Other current liabilities	-	-	-	-	-	137,677	137,677
<b>Total financial liabilities</b>	-	-	-	<b>4,991,656</b>	-	<b>137,677</b>	<b>5,129,333</b>
	2016						
	Up to 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
<b>Financial liabilities:</b>							
Secured loans	-	-	174,000	4,903,180	-	-	5,077,180
Other bank loans and borrowings	30,368	60,696	1,509,110	398,408	-	-	1,998,582
Other current liabilities	-	-	-	-	-	240,346	240,346
<b>Total financial liabilities</b>	<b>30,368</b>	<b>60,696</b>	<b>1,683,110</b>	<b>5,301,588</b>	-	<b>240,346</b>	<b>7,316,108</b>

**20. POST BALANCE SHEET EVENTS**

There were not any adjusting or significant non-adjusting events occurred between the reporting date and the date of authorisation of these financial statements.