“MCB LEASING” CLOSED JOINT- STOCK COMPANY

Financial Statements and
Independent Auditors’ Report
For the Year Ended 31 December 2014

"MCB LEASING" CJSC

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of MCB Leasing Closed Joint Stock Company (the "Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company at 31 December 2014, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

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

Grant Thornton was appointed auditor of the Company for the year ended 31 December 2014 and being eligible, have offered themselves for re-appointment for the year ending 31 December 2015.

The financial statements for the year ended 31 December 2014 were authorized for issue on 23 January 2015 by the Board of Directors.

On behalf of the Management:

Mr. Ramal Jafarov	**Mr. Sibt-e-Hassan Taqi**
Chief Executive Officer	**Chief Finance Officer**
23 January 2015	23 January 2015
Baku, Azerbaijan Republic	Baku, Azerbaijan Republic

MCB Lizing
MCB LEASING
Qapalı Səhmdar Cəmiyyəti

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of MCB Leasing Closed Joint Stock Company:

Report on the Financial Statements

We have audited the accompanying financial statements of MCB Leasing Closed Joint Stock Company, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of MCB Leasing Closed Joint Stock Company as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton
Baku, Azerbaijan Republic
23 January 2015

"MCB LEASING" CJSC

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014
(In Azerbaijani manats)

	Note	31 December 2014	31 December 2013
Assets			
Current assets			
Cash and cash equivalents	5	**72,724**	151,850
Advances, prepayments and other current assets	6	**272,941**	324,384
Net investment in finance lease	7	**3,558,716**	3,176,243
		3,904,381	3,652,477
Non-current assets			
Net investment in finance lease	7	**3,777,824**	2,802,075
Property and equipment	8	**102,252**	88,583
Intangible assets	9	**5,213**	-
Deferred tax asset	16	**1,228**	18,378
		3,886,517	2,909,036
Total assets		**7,790,898**	6,561,513
Liabilities			
Current liabilities			
Current portion of secured loans	10	-	2,353,500
Current portion of other bank loans	10	**479,742**	562,091
Other current liabilities	11	**240,693**	174,583
		720,435	3,090,174
Long-term loans			
Secured loans	10	**3,922,000**	1,569,000
Other bank loans	10	**1,344,715**	314,922
		5,266,715	1,883,922
Total liabilities		**5,987,150**	4,974,096
Represented by:			
Share capital	12	**1,668,842**	1,668,842
Accumulated profit/ (loss)		**134,906**	(81,424)
Total equity		**1,803,748**	1,587,418
Total liabilities and equity		**7,790,898**	6,561,513

On behalf of the Management:

MCB Lizing
MCB
LEASING
Qapalı Səhmdar Cəmiyyəti

Mr. Ramal Jafarov
Chief Executive Officer

23 January 2015
Baku, Azerbaijan Republic

Mr. Sibt-e-Hassan Taqi
Chief Finance Officer

23 January 2015
Baku, Azerbaijan Republic

The notes on pages 8-32 form an integral part of these financial statements.

"MCB LEASING" CJSC

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014
(In Azerbaijani manats)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Interest income from finance leases		**1,178,099**	1,086,538
Interest expense		**(333,153)**	(314,166)
Net interest income		**844,946**	772,372
Fee, commission and brokerage income		**116,230**	267,093
Net gain on foreign exchange translation		**2,154**	26,424
Other income		**733**	6,368
Operating income		**964,063**	1,072,257
Operating expenses	14	**(443,951)**	(436,139)
Administrative expenses	15	**(244,923)**	(255,132)
Profit before provisions against receivables		**275,189**	380,986
Provisions for receivables	6	**(1,250)**	-
Profit before income tax		**273,939**	380,986
Income tax expense	16	**(57,609)**	(75,610)
Profit after income tax		**216,330**	305,376
Other comprehensive income:		-	-
Total comprehensive income for the year		**216,330**	305,376

On behalf of the Management:

MCB Lizinq Qapalı Səhmdar Cəmiyyəti MCB LEASING

Mr. Ramal Jafarov
Chief Executive Officer

23 January 2015
Baku, Azerbaijan Republic

Mr. Sibt-e-Hassan Taqi
Chief Finance Officer

23 January 2015
Baku, Azerbaijan Republic

The notes on pages 8-32 form an integral part of these financial statements.

"MCB LEASING" CJSC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
(In Azerbaijani manats)

	Share capital	Accumulated (loss) / profit	Total equity
Balance as at 31 December 2012	1,668,842	(386,800)	1,282,042
Shares issued	-	-	-
Total comprehensive income for the year	-	305,376	305,376
Balance as at 31 December 2013	**1,668,842**	**(81,424)**	**1,587,418**
Total comprehensive income for the year	-	**216,330**	**216,330**
Balance as at 31 December 2014	**1,668,842**	**134,906**	**1,803,748**

On behalf of the Management:

MCB Lizing
MCB
LEASING
Qapalı Səhmdar Cəmiyyəti

Mr. Ramal Jafarov
Chief Executive Officer

23 January 2015
Baku, Azerbaijan Republic

Mr. Sibt-e-Hassan Taqi
Chief Finance Officer

23 January 2015
Baku, Azerbaijan Republic

The notes on pages 8-32 form an integral part of these financial statements.

"MCB LEASING" CJSC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014
(In Azerbaijani Manats)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Cash flows from operating activities			
Profit before income tax		**273,939**	380,986
Adjustments for non-cash income and expenses:			
Depreciation expense	15	**31,009**	26,117
Amortisation expense		**1,737**	-
Net gain on foreign exchange operations		**-**	(26,424)
		306,685	380,679
Changes in working capital:			
Net investment in finance lease		**(1,358,222)**	(418,598)
Advances, prepayments and other current assets		**51,443**	(115,757)
Other current liabilities		**25,652**	24,850
		(1,281,127)	(509,505)
Income tax paid		**-**	-
Net cash used in operating activities		**(974,442)**	(128,826)
Cash flows from investing activities			
Purchase of property and equipment	8	**(44,678)**	(1,935)
Purchase of intangible assets		**(6,950)**	
Net cash used in investing activities		**(51,628)**	(1,935)
Cash flows from financing activities			
Proceeds from/repayment of secured loans		**946,944**	(38,065)
Net cash used in financing activities		**946,944**	(38,065)
Net increase/(decrease) in cash and cash equivalents		**(79,126)**	(168,826)
Cash and cash equivalents at beginning of year	5	**151,850**	320,676
Cash and cash equivalents at end of year	**5**	**72,724**	151,850

On behalf of the Management:

Mr. Ramal Jafarov
Chief Executive Officer

23 January 2015
Baku, Azerbaijan Republic

Mr. Sibt-e-Hassan Taqi
Chief Finance Officer

23 January 2015
Baku, Azerbaijan Republic

The notes on pages 8-32 form an integral part of these financial statements.

1. INTRODUCTION

"MCB Leasing" CJSC ("Company") was incorporated and domiciled 16 October 2009 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. Due to the change in the share capital the Company was re-registered on 28 March 2014 with the Ministry of Taxation of the Republic of Azerbaijan.

The Company's principal business activity is providing finance lease 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 95% of the issued share capital and is the Company's parent company and ultimate controlling company. As at 31 December 2014 and 2013 the following shareholders owned the share capital of the Company:

	31 December 2014 Ownership interest, %	31 December 2013 Ownership interest, %
MCB Bank Limited (Pakistan)	**95**	95
Mr. Mohammad Hasan Metla (Individual person)	**4.94**	
Mr. Ramal Jafarov (Individual person)	**0.06**	-
Mr. Namig Safarov Rahib (Individual person)	**-**	5
Total	**100**	100

2. BASIS OF PREPARATION

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The Company maintains its accounting records in accordance with Azerbaijan law, which in majority complies with IFRS. These financial statements have been prepared from the Azerbaijan statutory accounting records and have been adjusted to conform to IFRS.

2.2 The functional and presentation currency

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

2. BASIS OF PREPARATION (CONTINUED)

2.3. Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in the application of accounting policies are as follows:

a) **Taxation.** In making estimates for income taxes currently payable by the Company, the management considers the current income tax laws.

b) **Depreciation of operating fixed assets.** In making estimates relating to the depreciation or amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Company.

3. STANDARDS, INTERPRETATIONS AND AMENDMENTS

a) Standards, interpretations and amendments to existing standards that are effective in 2014

Following relevant new standards, revisions and amendments to existing standards were issued by the IASB, which are effective for the accounting period beginning on or after 1 January 2014 and have been adopted by the Company:

Standard number	Title	Effective date
IAS 32	Financial Instruments: Presentation – Amendment	1 January 2014
IAS 36	Impairment of Assets – Amendment	1 January 2014
IAS 39	Financial Instruments: Recognition and Measurement – Amendment	1 January 2014

At the date of authorisation of these financial statements, the following new standards, interpretations and amendments to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Standard number	Title	Effective date
IAS 19	Employee Benefits – Amendments	1 July 2014
IAS 16 and IAS 38	Property, Plant and Equipment and Intangible Assets – Amendments	1 January 2016

3. STANDARDS, INTERPRETATIONS AND AMENDMENTS (CONTINUED)

b) Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company

IAS 16 and IAS 41	Property, Plant and Equipment and Investment Property – Amendments	1 January 2016
IFRS 15	Revenue from Contracts with Customers – New	1 January 2017
IFRS 9	Financial Instruments – Amendments	1 January 2018
	Annual Improvements 2010 – 2012	
IFRS 13	Fair Value Measurement – Amendments	1 July 2014
IAS 16	Property, Plant and Equipment – Amendments	1 July 2014
IAS 24	Related Party Disclosures – Amendments	1 July 2014
IAS 38	Intangible Assets – Amendments	1 July 2014
	Annual Improvements 2011 – 2013	
IFRS 1	First-time Adoption of IFRS – Amendments	1 July 2014
IFRS 13	Fair Value Measurement – Amendments	1 July 2014
	Annual Improvements 2012 – 2014	
IAS 19	Employee Benefits – Amendments	1 January 2016
IFRS 7	Financial Instruments: Disclosures – Amendments	1 January 2016

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on the relevant new standards, amendments and interpretations that are not yet effective has been provided below. The Company's management has yet to assess the impact of these new and revised standards on the Company's financial statements, unless specifically stated.

IAS 19 Employee Benefits – Amendments (effective for accounting period beginning on or after 1 July 2014)

The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that the contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered.

3. STANDARDS, INTERPRETATIONS AND AMENDMENT (CONTINUED)

b) Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Amendments (effective for accounting period beginning on or after 1 January 2016)

The amendments to IAS 16 'Property, Plant and Equipment and IAS 38 'Intangible Assets':

- clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment;
- introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated; and
- add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – Amendments (effective for accounting period beginning on or after 1 January 2016)

The amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. In terms of the amendments, bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16.

On the initial application of the amendments, entities are permitted to use the fair value of items of bearer plant as their deemed cost as at the beginning of the earliest period presented. Any difference between the previous carrying amount and fair value should be recognised in opening retained earnings at the beginning of the earliest period presented resulting in retrospective application.

The produce growing on bearer plants continues to be accounted for in accordance with IAS 41. For government grants related to bearer plants, IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' will apply.

IFRS 15 Revenue from Contracts with Customers - New (effective for accounting period beginning on or after 1 January 2017)

IFRS 15 establishes a single comprehensive five-step model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards and Interpretations upon its effective date:

- IAS 18 *Revenue*;
- IAS 11 *Construction Contracts;*
- IFRIC 13 *Customer Loyalty Programmes*;
- IFRIC 15 *Agreements for the Construction of Real Estate*;
- IFRIC 18 *Transfers of Assets from Customers*; and

3. STANDARDS, INTERPRETATIONS AND AMENDMENTS (CONTINUED)

b) Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company (continued)

- SIC 31 *Revenue-Barter Transactions Involving Advertising Services*.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is also provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

IFRS 9 Financial Instruments – Amendments (effective for accounting period beginning on or after 1 January 2018)

In July 2014, the IASB issued the final version of IFRS 9 'Financial Instruments' which reflects all phases of the financial instruments project and replaces IAS 39 'Financial Instruments: Recognition and Measurement' and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

Classification and measurement

Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. 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 of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.

Hedge accounting

Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures

3. STANDARDS, INTERPRETATIONS AND AMENDMENTS (CONTINUED)

b) Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company (continued)

Derecognition

The requirements for derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 9 is effective for accounting period beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015.

Management has yet to assess the impact of this revised standard on the Company's financial statements.

ANNUAL IMPROVEMENTS 2010 – 2012

IFRS 13 Fair Value Measurement – Amendments (effective for accounting period beginning on or after 1 July 2014)

The amendments clarify that the issuance of IFRS 13 and consequential amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 16 Property, Plant and Equipment – Amendments (effective for accounting period beginning on or after 1 July 2014)

The amendments remove perceived inconsistencies in the accounting for accumulated depreciation when an item of property, plant and equipment is revalued. The amended requirements clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

An entity is required to apply these amendments to all revaluations recognised in the annual period in which the amendments are first applied and in the immediately preceding annual period. An entity is permitted, but not required, to restate any earlier periods presented.

IAS 24 Related Party Disclosures – Amendments (effective for accounting period beginning on or after 1 July 2014)

The amendments clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity must disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

3. STANDARDS, INTERPRETATIONS AND AMENDMENTS (CONTINUED)

b) Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company (continued)

IAS 38 Intangible Assets – Amendments (effective for accounting period beginning on or after 1 July 2014)

The amendments remove perceived inconsistencies in the accounting for accumulated amortisation when an item of intangible asset is revalued. The amended requirements clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

An entity is required to apply these amendments to all revaluations recognised in the annual period in which the amendments are first applied and in the immediately preceding annual period. An entity is permitted, but not required, to restate any earlier periods presented.

ANNUAL IMPROVEMENTS 2011 – 2013

IFRS 1 First-time adoption of IFRS – Amendments (effective for accounting period beginning on or after 1 July 2014)

The amendments clarify that a first-time adopter is allowed, but not required, to apply a new IFRS that is not yet mandatory if that IFRS permits early application. If an entity chooses to early apply a new IFRS, it must apply that new IFRS retrospectively throughout all periods presented unless IFRS 1 provides an exemption or an exception that permits or requires otherwise. Consequently, any transitional requirements of that new IFRS do not apply to a first-time adopter that chooses to apply that new IFRS early.

IFRS 13 Fair Value Measurement – Amendments (effective for accounting period beginning on or after 1 July 2014)

The amendment clarifies that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, an accounted for in accordance with, IAS 39

'Financial Instruments: Recognition and Measurement' or IFRS 9 'Financial Instruments', even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32 'Financial Instruments: Presentation'.

Annual Improvements 2012 – 2014

IAS 19 Employee Benefits – Amendments (effective for accounting period beginning on or after 1 January 2016)

The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

3. STANDARDS, INTERPRETATIONS AND AMENDMENTS (CONTINUED)

b) Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company (continued)

IFRS 7 Financial Instruments: Disclosures – Amendments (effective for accounting period beginning on or after 1 January 2016)

The amendment adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. It also clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Recognition and measurement of financial instruments

The Company recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at 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 recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability.

For the purpose of subsequent measurement, financial assets are classified as loans and receivables upon initial recognition and measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

(a) 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.

(b) 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.

(c) 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.

(d) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Recognition and measurement of financial instruments (continued)

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.

4.2 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost which is equivalent to its fair value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash.

4.3 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation on all operating fixed assets is charged using the diminishing balance method except for vehicles and computers, which are depreciated using the straight line method in accordance with the rates below and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date.

Depreciation of property and equipment is calculated at the following rates:

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

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in other administrative and operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed of. Gains or losses on sale of property and equipment are credited to the profit and loss account currently, except that the related surplus on revaluation which is transferred directly to retained earnings. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Intangible assets

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

Computer software	33%

4.5 Foreign currencies

Transactions in foreign currencies are translated to AZN at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in AZN terms at the rates of exchange prevailing at the reporting date. Translation gains and losses are included in the profit and loss account.

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

31 December 2014	31 December 2013
USD 1 = AZN 0.7844	USD 1 = AZN 0.7845
EUR 1 = AZN 0.9522	EUR 1 = AZN 1.0780
GBP 1 = AZN 1.2173	GBP 1 = AZN 1.2927
RUR 1 = AZN 0.0133	RUR 1 = AZN 0.0241

4.6 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.

4.7 Prepayments

Prepayments and other receivables are stated at their nominal value.

4.8 Secured loans

Secured loans are recognized initially at fair value, net of transaction cost incurred. In subsequent periods, secured loans are stated at amortized cost using the effective interest method; any difference between the fair value of the proceeds (net of transaction cost) and the redemption amount is recognized as interest expense over the period of the secured loans.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, 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.

4.10 Share capital

Contributions to share capital are recognized at cost. Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under the International Accounting Standard 10 "Events after the Reporting Period" ("IAS 10") and disclosed accordingly.

4.11 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except that a change attributable to an item of income or expense recognized as other comprehensive income is also recognized directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted in the Azerbaijan Republic.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits of the Company. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2014	31 December 2013
Current accounts with banks in local currency	**44,106**	125,880
Current accounts with banks in foreign currency	**28,159**	25,511
Cash at hand	**459**	459
Total cash and cash equivalents	**72,724**	151,850

5. CASH AND CASH EQUIVALENTS (CONTINUED)

Current accounts with banks in foreign currency in the amount of AZN 28,157 (2013: AZN 25,468) is held in an escrow account and is used purely for the payment of loan principal and interest.

Amounts of cash and cash equivalents as at 31 December 2014 and 2013 as disclosed above are included into the statement of cash flows.

6. ADVANCES, PREPAYMENTS AND OTHER CURRENT ASSETS

Advances, prepayments and other current assets comprise:

	31 December 2014	31 December 2013
Receivables overdue	**187,776**	242,338
Provision on overdue receivables	**(1,250)**	-
Receivables overdue – net	**186,526**	242,338
Accrued income	**49,254**	42,972
Advances to employees	**29,929**	21,000
Prepaid expenses	**2,179**	12,158
Other receivables	**5,053**	5,916
Total advances, prepayments and other current assets	**272,941**	324,384

7. NET INVESTMENT IN FINANCE LEASE

	31 December 2014			
	Not later than one year	**Later than one and less than five years**	**Over five years**	**Total**
Lease rental receivable	4,646,954	4,414,776	-	9,061,730
Minimum lease payments	4,646,954	4,414,776	-	9,061,730
Finance charges for future period	(1,088,238)	(636,952)	-	(1,725,190)
Present value of minimum lease payments	3,558,716	3,777,824	-	7,336,540

	31 December 2013			
	Not later than one year	**Later than one and less than five years**	**Over five years**	**Total**
Lease rental receivable	4,023,939	3,236,543	-	7,260,482
Minimum lease payments	4,023,939	3,236,543	-	7,260,482
Finance charges for future period	(847,696)	(434,468)	-	(1,282,164)
Present value of minimum lease payments	3,176,243	2,802,075	-	5,978,318

8. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Computer and office equipment	Vehicles	Furniture and fixtures	Other fixed assets	Total
Cost at 31 December 2012	43,775	39,814	73,316	32,881	189,786
Additions	1,571	-	364	-	1,935
Cost at 31 December 2013	45,346	39,814	73,680	32,881	191,721
Additions	**1,878**	**42,800**	-	-	**44,678**
Cost at 31 December 2014	**47,224**	**82,614**	**73,680**	**32,881**	**236,399**
Accumulated depreciation at 31 December 2012	22,599	22,237	17,980	14,205	77,021
Charge for the year	8,863	7,963	5,556	3,735	26,117
Accumulated depreciation at 31 December 2013	31,462	30,200	23,536	17,940	103,138
Charge for the year	**9,337**	**13,670**	**5,014**	**2,988**	**31,009**
Accumulated depreciation at 31 December 2014	**40,799**	**43,870**	**28,550**	**20,928**	**134,147**
NBV at 31 December 2014	**6,425**	**38,744**	**45,130**	**11,953**	**102,252**
NBV at 31 December 2013	13,884	9,614	50,144	14,941	88,583

In the opinion of the management there was no impairment on property and equipment as at 31 December 2014 (2013: Nil).

9. INTANGIBLE ASSETS

Intangible assets recognized in the statement of financial position pertain to computer software and can be analysed as follows:

	31 December 2014	31 December 2013
Gross carrying amount		
Cost at 31 December	**6,950**	-
Accumulated amortisation		
Balance at January 1	-	-
Charge for the year	1,737	-
Balance at December 31	1,737	-
Carrying amount at December 31	**5,213**	-

10. SECURED LOANS AND OTHER BANK LOANS

Secured loans comprise:

	31 December 2014		31 December 2013	
	Rate of interest per annum	**Amount**	**Rate of interest per annum**	**Amount**
MCB Bank Ltd. Bahrain	**3 month's LIBOR + 4%**	**1,568,800**	3 month's LIBOR + 4%	1,569,000
MCB Bank Ltd. Bahrain	**3 month's LIBOR 5.25%**	**2,353,200**	3 month's LIBOR + 4.5%	2,353,500
Total		**3,922,000**		3,922,500
Current portion		**-**		2,353,500
Non-current portion		**3,922,000**		1,569,000

Other bank loans comprise:

	31 December 2014		31 December 2013	
	Rate of interest per annum	**Amount**	**Rate of interest per annum**	**Amount**
Bank of Azerbaijan	**Fixed annual rate 15%**	**338,865**	Fixed annual rate 11.5%	877,013
Pasha Bank	**Fixed annual rate 12.7%**	**985,592**	-	-
Atasığorta (Ata Insurance)	**Fixed annual rate 11%**	**500,000**	-	-
Total		**1,824,457**		877,013
Current portion		**479,742**		562,091
Non-current portion		**1,344,715**		314,922

On 8 November 2010 the Company entered into loan agreement with its parent MCB Bank Limited for a total of USD 2,000,000 at 3 month's LIBOR + 4.0% interest rate per annum, the agreement was renewed dated 1 August 2013 and is now, as renewed, repayable fully on maturity i.e. on 7 November 2016. Interest payments are scheduled on a quarterly basis from the inception of loan. Loan is secured against current assets and leased equipment of the Company.

On 6 April 2011 the Company entered into another loan agreement with its parent MCB Bank Limited for a total of USD 3,000,000 initially at 3 month's LIBOR + 4.5% interest rate per annum. The agreement was renewed dated 11 March 2014. The loan term, as renewed, is now repayable fully on maturity i.e. on 4 April 2017 and interest payments are scheduled on a quarterly basis on an interest rate of LIBOR + 5.25%. Loan is secured against current assets and leased equipment of the Company.

On 3 May 2012 the Company entered into loan agreement with Bank of Azerbaijan for a total of AZN 1,000,000 at fixed 11.5 % interest rate per annum. The interest is paid on monthly basis. The loan is provided in tranches and each tranche is repaid in accordance with the repayment schedule attached to the loan agreement. The agreement was renewed dated 9 October 2013 with new fixed interest rate of 15%.

On 18 September 2014 the Company has acquired loan from Pasha Bank amounting to AZN 1,000,000 in 4 tranches. The loan bears an interest rate of 12.7% per annum and is repayable as per schedule attached with the agreement. The loan is repayable by 28 November 2017. Interest payments are scheduled on a quarterly basis from the inception of loan.

10. SECURED LOANS AND OTHER BANK LOANS (CONTINUED)

On 1 July, 2014 the Company has issued 500 units of bonds to Atasığorta (Ata Insurance), having face value amounting to AZN 500,000. The bond bears a nominal interest rate of 11% per annum. The bond is repayable on 30 June 2017. Ata insurance, however, has a put option to redeem 25% bonds after 18 months of issuance and in every six months period afterwards with the prior notice of one month.

Total interest expense on above loans during the years ended 31 December 2014 and 2013 amounted to AZN 333,153 and AZN 314,166 respectively.

11. OTHER CURRENT LIABILITIES

Other current liabilities comprise:

	31 December 2014	**31 December 2013**
Advances received from lessees	**33,035**	67,394
Payable to suppliers	**64,114**	42,389
Accrued expenses	**103,085**	64,800
Profit tax payable	**40,459**	-
Total other current liabilities	**240,693**	174,583

12. SHARE CAPITAL

As of 31 December 2014 the Company's authorized, issued and fully paid up share capital amounted to AZN 1,668,842 and comprised of 1,668,842 ordinary shares with a par value of AZN 1 (31 December 2013: AZN 1,668,842 comprised 1,668,842 ordinary shares). Each share entitles the shareholder to one vote.

13. COMMITMENTS, CONTINGENCIES AND OPERATIONAL RISK

Capital expenditure commitments

At 31 December 2014 and 2013 the Company had no significant contractual capital expenditure commitments in respect of property and equipment, or in any other areas.

Legal proceedings

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

Other commitments

At 31 December 2014 the Company had no other commitments (2013: Nil).

13. COMMITMENTS, CONTINGENCIES AND OPERATIONAL RISK (CONTINUED)

Business environment

The Company's main operations are conducted in the Azerbaijan Republic. As an emerging market, at the present time the Azerbaijan Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy.

Whilst there have been improvements in economic trends in the Azerbaijan Republic, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Azerbaijan Republic. The tax, currency and customs legislations within the Azerbaijan Republic is subject to varying interpretations, and changes which can occur frequently.

The future economic direction of the Azerbaijan Republic is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory and political developments. Management is unable to predict all developments in the economic environment which would have an impact on the Company's operations and consequently what effect, if any, they could have on the financials position of the Company.

The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the period when they become known and estimable.

Regulatory environment

The Company's financial position will continue to be affected by Azerbaijan political developments, including the application of existing and future legislation and tax regulations. The Company does not believe that these contingencies, as related to its operation, are any more significant than those of similar enterprises in the Azerbaijan Republic.

Legislation and regulations regarding taxations, foreign currency transactions and licensing of foreign loans in the Azerbaijan Republic are constantly evolving as the central government manages the transformation to a market oriented economy. Also, the various legislation and regulations are not always clearly written and their interpretations are subject to the opinions of tax inspectors, Central Bank officials and Ministry of Finance.

The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning the provision of taxes was unclear, the Company's policy is to accrue for the contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with Azerbaijani tax and legal system, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed and accrued to date.

14. OPERATING EXPENSES

	Year ended 31 December 2014	Year ended 31 December 2013
Salary and bonuses	**357,837**	351,187
Social security costs	**78,595**	77,261
Staff medical insurance	**7,519**	7,691
Total operating expenses	**443,951**	436,139

15. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2014	Year ended 31 December 2013
Office rent	**97,348**	88,044
Depreciation	**31,009**	26,117
Security	**27,600**	27,600
Bank charges	**24,335**	57,951
Professional services fees	**13,040**	11,451
Audit fee	**10,620**	9,000
Communication	**8,534**	9,180
Vehicle running costs	**8,047**	5,508
Travelling expenses	**6,036**	1,025
Office supplies	**4,914**	8,050
Utilities	**4,905**	5,643
Vehicle insurance	**2,438**	1,043
State legal fees	**1,749**	1,026
Amortisation	**1,737**	-
Other expenses	**1,647**	1,552
Taxes other than income tax	**677**	735
Repair and maintenance	**287**	707
Marketing and advertisement	**-**	500
Total administrative expenses	**244,923**	255,132

16. INCOME TAXES

During the year ended 31 December 2014 and 2013, Azerbaijan's tax rate for companies' profits was 20%. The tax rate is expected to remain the same for 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 2014 and 2013 comprise:

	31 December 2014	31 December 2013
Tax losses of 2010 carried forward	**477,384**	477,384
Tax losses of 2011 carried forward	**141,573**	141,573
Tax losses used in 2012	**(129,753)**	(129,753)
Tax losses used in 2013	**(387,667)**	(387,667)
Tax losses used in 2014	**(101,537)**	-
Total unused tax (profit) / losses	**-**	101,537
Temporary differences	**6,142**	(9,644)
Total deductible / (taxable) temporary differences	**6,142**	(9,644)
Deferred deductible temporary differences	**6,142**	91,893
Deferred tax asset at the statutory tax rate (20%)	**1,228**	18,378
Deferred tax asset	**1,228**	18,378

Relationships between tax expenses and accounting profit for the years ended 31 December 2014 and 2013 are explained as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Profit before income tax	**273,939**	380,986
Tax at the statutory tax rate 20%	**(54,788)**	(76,198)
Tax effect of permanent differences	**(538)**	(500)
Tax effect of temporary differences	**(3,157)**	-
Unrecognized deferred tax assets	**-**	1,088
Income tax expense	**(58,484)**	(75,610)
Current income tax expense	**(40,459)**	
Deferred income tax movement	**(17,150)**	(75,610)
Income tax expense	**(57,609)**	(75,610)

The movement of deferred income tax asset during the years ended 31 December 2014 and 2013 is as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Deferred tax asset as at 1 January 2014	**18,378**	93,988
Change in the deferred tax assets for the period charged to income statement	**(17,150)**	(75,610)
Deferred tax asset as at 31 December 2014	**1,228**	18,378

17. FINANCIAL RISK MANAGEMENT

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

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 giving rise to 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.

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.

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

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

As at 31 December 2014 and 31 December 2013 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.

	31 December 2014	31 December 2013
Cash at banks	**72,265**	151,391
Receivable from customers	**235,780**	285,310
Net investment in finance lease	**7,336,540**	5,978,318
Total carrying amount	**7,644,585**	6,415,019

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.

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 bellow:

	31 December 2014	31 December 2013
Receivables from customers	**187,776**	242,338

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.

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.

The following table presents sensitivities to reasonably possible changes in the Azerbaijani Manat/US Dollar exchange rate.

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

It assumes a ±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:

	31 December 2014 Impact on profit for year	31 December 2013 Impact on profit for year
US Dollars strengthening by 5%	(198,502)	(196,483)
US Dollars weakening by 5%	198,502	196,483

The tables below summarise the Company's exposure to foreign currency exchange rate risk at 31 December 2014 and 2013. Included in the table are the Company's financial instruments at carrying amounts, categorised by currency:

		31 December 2014	
	AZN	USD	Total
Financial assets:			
Cash and cash equivalents	44,565	28,159	72,724
Receivable from customers	235,780	-	235,780
Net investment in finance lease	7,336,540		7,336,540
Total financial assets	7,616,885	28,159	7,645,044
Financial liabilities:			
Secured loans	-	3,922,000	3,922,000
Other loans	1,824,457	-	1,824,457
Other current liabilities	164,502	76,191	240,693
Total financial liabilities	1,988,959	3,998,191	5,987,150
OPEN POSITION	5,627,926	(3,970,032)	1,657,894

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk (Continued)

	31 December 2013		
	AZN	**USD**	**Total**
Financial assets:			
Cash and cash equivalents	126,339	25,511	151,850
Other receivables	285,310	-	285,310
Net investment in finance lease	5,978,318	-	5,978,318
Total financial assets	6,389,977	25,511	6,415,478
Financial liabilities:			
Secured loans	-	3,922,500	3,922,500
Other loans	877,013	-	877,013
Other current liabilities	141,919	32,664	174,583
Total financial liabilities	1,018,932	3,955,164	4,974,096
OPEN POSITION	5,371,045	(3,929,653)	1,441,382

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.

Interest rate risk

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

	31 December 2014 Impact on profit for year	**31 December 2013 Impact on profit for year**
Interest rate +1%	**(39,220)**	(39,225)
Interest rate -1%	**39,220**	39,225

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The Management Board monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing 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 repricing positions. In addition, the Company's monthly interest margins are continually reviewed in order to reprice its assets when deemed appropriate.

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

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:

	31 December 2014						
	Up to 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Financial assets:							
Cash and cash equivalents	-	-	-	-	-	72,724	72,724
Other receivables	-	-	-	-	-	235,780	235,780
Net investment in finance lease	310,560	640,671	2,607,485	3,777,824	-	-	7,336,540
Total financial assets	310,560	640,671	2,607,485	3,777,824	-	308,504	7,645,044
Financial liabilities:							
Secured loans	-	-	-	3,922,000	-	-	3,922,000
Other loans	48,688	91,239	339,815	1,344,715	-	-	1,824,457
Other current liabilities	-	-	-	-	-	240,693	240,693
Total financial liabilities	48,688	91,239	339,815	5,266,715	-	240,693	5,987,150
Total interest repricing gap	261,872	549,432	2,267,670	(1,488,891)	-	67,811	1,657,894

	31 December 2013						
	Up to 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Financial assets:							
Cash and cash equivalents	-	-	-	-	-	151,850	151,850
Other receivables	-	-	-	-	-	285,310	285,310
Net investment in finance lease	328,862	632,082	2,215,300	2,802,075	-	-	5,978,319
Total financial assets	328,862	632,082	2,215,300	2,802,075	-	437,160	6,415,479
Financial liabilities:							
Secured loans	-	-	2,353,500	1,569,000	-	-	3,922,500
Other loans	122,808	43,489	395,794	314,922	-	-	877,013
Other current liabilities	-	-	-	-	-	174,583	174,583
Total financial liabilities	122,808	43,489	2,749,294	1,883,922	-	174,583	4,974,096
Total interest repricing gap	206,054	588,593	(533,994)	918,153	-	262,577	1,441,383

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet 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.

	31 December 2014					
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities:						
Secured loans	**32,962**	**16,967**	**161,783**	**4,214,534**		**4,426,246**
Other loans	**76,444**	**118,377**	**485,603**	**1,512,378**		**2,192,802**
Other current liabilities	**141,878**	**66,297**	**32,518**	**-**	**-**	**240,693**
Total undiscounted financial liabilities	**251,284**	**201,641**	**679,904**	**7,726,912**		**6,859,741**

	31 December 2013					
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities:						
Secured loans	16,986	32,835	2,503,678	1,693,557		4,247,056
Other loans	122,808	66,998	436,468	346,232	-	972,506
Other current liabilities	9,825	64,800	32,564		-	107,189
Total undiscounted financial liabilities	149,619	164,633	2,972,710	2,039,789	-	5,326,751

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).

No non-financial instruments are held at fair value.

18. RELATED PARTY TRANSACTIONS AND BALANCES

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Company had the following balances outstanding as at 31 December 2014 and 2013 with related parties:

	31 December 2014		31 December 2013	
	Related party balances	Total category as per financial statements	Related party balances	Total category as per financial statements
Cash and cash equivalents	**28,157**	**72,724**	25,468	151,850
Parent Company	**28,157**		25,468	
Advances, prepayments and other current assets	**28,163**	**272,941**	21,000	324,384
Key management personnel	**28,163**		21,000	
Net investment in finance lease	**63,908**	**7,336,540**	83,137	5,978,319
Key management personnel	**63,908**		83,137	
Secured loans	**3,922,000**	**3,922,000**	3,922,500	3,922,500
Shareholders	**3,922,000**		3,922,500	
Other current liabilities	**76,191**	**240,693**	66,298	174,583
Shareholders	**43,673**		33,780	
Other related party	**32,518**		32,518	

The Company had the following transactions for the year ended 31 December 2014 and 2013 with related parties:

	31 December 2014		31 December 2013	
	Related party transactions	Total category as per financial statements	Related party transactions	Total category as per financial statements
Interest income from finance leases	**7,465**	**1,178,099**	9,271	917,372
Key management personnel	**7,465**		9,271	
Interest expense	**(215,278)**	**(333,153)**	(202,171)	(257,567)
Shareholders	**(215,278)**		(202,171)	
Operating expenses	**(226,514)**	**(449,987)**	(227,432)	(409,729)
Key management personnel	**(226,514)**		(227,432)	

19. POST-REPORTING DATE NON – ADJUSTING EVENTS

The Board of Directors has declared a final cash dividend of AZN 0.04 per share (2013: Nil per share) amounting to AZN 73,553 (2013: Nil) for the year ended 31 December 2014 subject to the approval of the members at the forthcoming Annual General Meeting.