MCB Leasing Closed Joint Stock Company

Financial Statements
For the year ended December 31, 2018

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Statement of management responsibilities

Management has prepared and is responsible for the fair presentation of financial statements and related notes of MCB Leasing Closed Joint Stock Company (the "Company"). These have been prepared in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and also necessarily include amounts based on judgements and estimates made 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.

MCB Lizinq
MCB
LEASING
Qapalı Səhmdar Cəmiyyəti

Mr. Ramal Jafarov
Chief Executive Officer

Mr. S. Muzammil Noor
Chief Finance Officer

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Independent auditor's report

To the Shareholders of MCB Leasing Closed Joint Stock Company

Report on the audit of the financial statements

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 December 31, 2018, and the statement of comprehensive income, the statement of changes in equity and the 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 give a true and fair view of the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other Matter Paragraph

The financial statements of the Company for the year ended December 31, 2017 were audited by another auditor, who through their report dated January 16, 2018 expressed an unqualified opinion thereon.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton

GRANT THORNTON
Baku, Azerbaijan Republic

January 15, 2019

Statement of financial position
As at December 31, 2018

	Notes	2018	2017
ASSETS		**AZN**	AZN
Non-current			
Property and equipment	5	**47,950**	54,175
Net investment in finance lease	6	**4,237,647**	3,035,266
Deferred tax asset	16	**142,753**	304,477
Total non-current assets		**4,428,350**	3,393,918
Current			
Net investment in finance lease	6	**4,032,978**	3,686,153
Advances, prepayments and other receivables	8	**84,876**	72,388
Cash and cash equivalents	9	**28,928**	1,083,727
Total current assets		**4,146,782**	4,842,268
Total assets		**8,575,132**	8,236,186
EQUITY AND LIABILITIES			
Equity			
Share capital	10	**4,283,675**	4,283,675
Accumulated losses		**(876,505)**	(1,176,822)
Total equity		**3,407,170**	3,106,853
Liabilities			
Non-current			
Borrowings	11	**1,591,392**	4,991,656
Total non-current liabilities		**1,591,392**	4,991,656
Current			
Borrowings	11	**3,400,000**	-
Other current liabilities	12	**176,570**	137,677
Total current liabilities		**3,576,570**	137,677
Total liabilities		**5,167,962**	5,129,333
Total equity and liabilities		**8,575,132**	8,236,186

These financial statements for the year ended December 31, 2018 (including comparatives) were approved on behalf of management on January 15, 2019 and signed as below:

MCB Lizinq MCB LEASING Qapalı Səhmdar Cəmiyyəti

Mr.Ramal Jafarov
(Chief Executive Officer)

Mr. S. Muzammil Noor
(Chief Finance Officer)

The accompanying notes 1 to 23 form an integral part of these financial statements.

Statement of comprehensive income
For the year ended December 31, 2018

	Notes	2018 AZN	2017 AZN
Interest income from finance leases		**1,632,560**	1,753,278
Interest expense		**(465,978)**	(504,704)
Net interest income		**1,166,582**	1,248,574
Fee, commission and brokerage income		**81,611**	89,009
Net gain on foreign exchange translation		**85**	188,585
Other income		**19,100**	7,950
Operating income		**1,267,378**	1,534,118
Operating expenses	13	**(464,737)**	(439,550)
Administrative and general expenses	14	**(230,104)**	(241,866)
Profit before provisions		**572,537**	852,702
Net reversal/(charge) of impairment loss on financial assets	15	**94,051**	(39,307)
Profit for the year before tax		**666,588**	813,395
Taxation:			
Deferred tax	16	**(161,724)**	(178,919)
Net profit for the year		**504,864**	634,476
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**504,864**	634,476

The accompanying notes 1 to 23 form an integral part of these financial statements.

Statement of changes in equity
For the year ended December 31, 2018

	Share capital AZN	Accumulated losses AZN	Total equity AZN
Balance at January 1, 2017	4,283,675	(1,811,298)	2,472,377
Total comprehensive income	-	634,476	634,476
Balance at December 31, 2017	4,283,675	(1,176,822)	3,106,853
Impact of adopting IFRS 9 at January 1, 2018 (Refer to note 4.6.1, note 4.16.1, note 6 and note 9)	**-**	**(204,547)**	**(204,547)**
Restated balance at January 1, 2018	**4,283,675**	**(1,381,369)**	**2,902,306**
Total comprehensive income	**-**	**504,864**	**504,864**
Balance at December 31, 2018	**4,283,675**	**(876,505)**	**3,407,170**

The accompanying notes 1 to 23 form an integral part of these financial statements.

Statement of cash flows
For the year ended December 31, 2018

	Notes	2018 AZN	2017 AZN
OPERATING ACTIVITIES			
Profit for the year before tax		**666,588**	813,395
Adjustments for non-cash and non-operating items:			
Depreciation of property and equipment	5	**15,753**	15,729
Amortisation of intangible assets		**-**	579
Exchange (gain)/loss	11	**(264)**	784
Interest expense		**465,978**	504,704
(Reversal)/Charge of allowance for impairment loss of net investment in finance lease	6	**(46,221)**	39,307
Reversal of allowance for impairment loss of cash at banks	9	**(47,830)**	-
		1,054,004	1,374,498
Changes in working capital:			
Net investment in finance lease		**(1,667,433)**	990,721
Advances, prepayments and other receivables		**(12,488)**	(7,401)
Other current liabilities		**44,495**	(14,683)
Net cash (used in)/generated from operating activities		**(581,422)**	2,343,135
INVESTING ACTIVITY			
Purchase of property and equipment	5	**(9,528)**	(50)
Net cash used in investing activity		**(9,528)**	(50)
FINANCING ACTIVITIES			
Proceed from borrowings	11	**-**	4,990,872
Repayment of borrowings	11	**-**	(7,075,762)
Finance cost paid		**(463,446)**	(507,634)
Net cash used in financing activities		**(463,446)**	(2,592,524)
Net decrease in cash and cash equivalents		**(1,054,396)**	(249,439)
Cash and cash equivalents at the beginning of the year		**1,083,727**	1,333,166
Cash and cash equivalents at the end of the year	9	**29,331**	1,083,727

The accompanying notes 1 to 23 form an integral part of these financial statements.

1 Legal status and nature of operations

MCB Leasing Closed Joint Stock Company (the "Company") was incorporated on October 16, 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 October 15, 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 March 28, 2014 with the Ministry of Taxation of the Republic of Azerbaijan. The Company's registered address is 49 B Tbilisi Avenue Baku AZ1065, 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 equipments, equipments used in medicine, health care, and for other business needs. In addition, the Company leases out cars and trucks. Further the Company is also involved in real estate finance leases.

The Company is a subsidiary of MCB Bank Limited (the "Parent Company"), a public limited company listed on Pakistan Stock Exchange in Pakistan.

2 Statement of compliance with IFRS

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

3 Standards, interpretations and amendments to existing standards

3.1 Standards, interpretations and amendments to existing standards that are effective in 2018

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 January 1, 2018 and have been adopted by the Company:

Standard number	Title	Effective date
IFRS 9	Financial Instruments (refer to note 4.6.1 and note 4.16.1)	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IAS 28	Investments in Associates and Joint Ventures	January 1, 2018

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

At the date of authorisation of these financial statements, the following relevant 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. Information on the relevant new standards, amendments and interpretations that are not yet effective has been provided below.

New standards and significant amendments to standards:	Effective for annual periods beginning on or after
IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. Management has yet to assess the impact of this revised standard on the Company's financial statements.	January 1, 2019

3 Standards, interpretations and amendments to existing standards (continued)

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

New standards and significant amendments to standards:	Effective for annual periods beginning on or after
Annual Improvements to IFRS 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: Whether tax treatments should be considered collectively; Assumptions for taxation authorities' examinations; The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and the effect of changes in facts and circumstances.	January 1, 2019
Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 1, 2019
Amendment to IAS 19 Employee Benefits: The amendments clarify that: on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.	January 1, 2019
Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	January 1, 2020
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that all the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. The Company's management has yet to assess the impact of these changes on the Company's financial statements.

4 Summary of significant accounting policies

4.1 Overall considerations

These financial statements have been prepared 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. Further the accounting policies applied in the preparation of the financial statements are consistent with those applied in the annual financial statements for the year ended December 31, 2017, except for changes in accounting policies explained in note 4.6.1 and changes in management judgement and estimates explained in note 4.16.1.

4.2 Foreign currency translation

Functional and presentation currency

These financial statements are presented in Azerbaijan New Manat (AZN), which is also the functional currency of the Company.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

4.3 Property and equipment

Property and equipment are initially recognised at acquisition cost or construction cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Company's management.

These assets are subsequently measured using the cost model, cost less subsequent depreciation and 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 estimated following rates:

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

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 off.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within 'other income - net'.

4 Summary of significant accounting policies (continued)

4.4 Impairment testing of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles, such as market and asset-specific risks factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

4.5 Leases as lessor

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.

4.6 Financial instruments

Recognition, initial measurement and de-recognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expired. Financial assets and financial liabilities are measured subsequently as described on next pages.

4 Summary of significant accounting policies (continued)

4.6 Financial instruments (continued)

4.6.1 Changes in accounting policies

IFRS 9 - Financial Instruments

The Company has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

Classification and measurement

Financial assets

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL).

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

4 Summary of significant accounting policies (continued)

4.6 Financial instruments (continued)

4.6.1 Changes in accounting policies (continued)

IFRS 9 - Financial Instruments (continued)

Business model assessment:

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

Assessment whether contractual cash flows are solely payments of principal and profit:

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

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

Reclassifications:

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

Derecognition:

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

Impairment

The Company recognises allowance for impairment for expected credit losses (ECL) on financial assets including at amortised cost.

The Company measures allowance for impairment at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition, in which case 12-month ECL is measured.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

Measurement of ECL:

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

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

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

4 Summary of significant accounting policies (continued)

4.6 Financial instruments (continued)

4.6.1 Changes in accounting policies (continued)

IFRS 9 - Financial Instruments (continued)

Impairment (continued)

Credit-impaired financial assets:

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

Write-off:

Assets carried at amortised cost and debt securities at FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Transition

When adopting IFRS 9, the Company has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore not comparable to the information presented for period under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

The table below lists the financial instruments of the Company which were reclassified. However, except for the financial statement caption listed in the table below there have been no changes in the classification of assets and liabilities on application of IFRS 9 as at January 1, 2018.

	Measurement category		Carrying amount (AZN)		
	Original IAS 39 category	New IFRS 9 category	Closing balance December 31, 2017	Adoption of IFRS 9	Opening balance January 1, 2018 (IFRS)
Assets					
Cash and cash equivalents	Loans and receivables	Amortised cost	1,083,727	(48,233)	1,035,494
Net investment in finance lease	N/A	N/A	6,721,419	(156,314)	6,565,105
Other receivables	Loans and receivables	Amortised cost	65,218	-	65,218
Total			**7,870,364**	**(204,547)**	**7,665,817**

4 Summary of significant accounting policies (continued)

4.6 Financial instruments (continued)

4.6.2 Classification and subsequent measurement of financial liabilities

Financial liabilities comprise borrowings, accrued interest and accrued liabilities.

Financial liabilities are measured subsequently at amortised cost using the effective interest method.

All interest-related charges are included within 'interest expenses'.

4.6.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4.7 Cash and cash equivalents

Cash and cash equivalents are items, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents in the statement of financial position comprise cash on hand (if any) and cash in banks and are carried at amortised cost using the effective interest method. Further the Company has applied IFRS 9 ECL model to calculate the impairment of cash in banks. Refer to note 4.6.1 and 4.16.1 for further details.

For purpose of the statement of cash flows, cash on hand and cash at banks are considered as cash and cash equivalents.

4.8 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued.

Retained earnings/accumulated losses include all current and prior years' profits and losses.

4.9 Employee benefits

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.

End of service benefits

As required by Azerbaijan legislation, the Company withholds amounts of pension contributions from the salaries of employees and pays them to the state pension fund along with its own share of contribution. Upon retirement all retirement benefit payments are made by the state pension fund.

4.10 Provisions and contingencies

Provisions are recognised when present obligations because of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

4 Summary of significant accounting policies (continued)

4.10 Provisions and contingencies (continued)

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination.

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 an inflow of economic benefits is probable.

4.11 Revenue recognition

Revenue is recognised when the amount of revenue can be measured reliably, collection is probable, the costs incurred or to be incurred can be measured reliably, and when the criteria for the Company's activities have been met. These activity-specific recognition criteria are described below:

Lease rental income

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.

4.12 Borrowing cost

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

4.13 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

4.14 Leases as lessee

Operating leases as lessee

Where the Company is a lessee, payments made on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

4 Summary of significant accounting policies (continued)

4.15 Taxation

Income tax expense represents current and deferred tax expense/income.

Current taxation

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's current tax expense is calculated using tax rates that have been enacted or substantively enacted in the Azerbaijan Republic during the reporting period.

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.

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

4.16 Significant management judgement in applying accounting policies

The preparation of financial statements requires management to make judgement, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

The Company has consistently applied the estimates and judgements as applied by the Company in the annual financial statements for the year ended December 31, 2017, except the estimates and judgements which are applicable from January 1, 2018 as described in note 4.16.1.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

4 Summary of significant accounting policies (continued)

4.16 Significant management judgement in applying accounting policies (continued)

4.16.1 Changes in estimates and judgements

Changes to judgements made in applying accounting policies that have most significant effects on the amount recognized in the financial statements of the period ended December 31, 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact calculation of expected credit loss. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS - 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Company while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk:

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Company compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Company's existing risk management processes.

The assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on below mentioned factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. We have established thresholds for significant increases in credit risk relative to initial recognition.
2. Additional qualitative reviews are performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. The determination of credit-impairment under IFRS 9 is similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios:

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information require significant judgment.

PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the historical trends and macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Management overlay is also used to align the macroeconomics factors with the current condition of portfolio based on best management estimate and information.

The estimation of expected credit losses in Stage1 and Stage 2 is a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios.

Definition of default:

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. Management has also adopted the IFRS 9 assumption and has considered 90 days past due receivables as an indicator of default.

4 Summary of significant accounting policies (continued)

4.16 Significant management judgement in applying accounting policies (continued)

4.16.1 Changes in estimates and judgements (continued)

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios (continued):

Governance:

In addition to the existing risk management framework, the Company has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management and Economics and is responsible for reviewing and approving key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in the financial statements

4.16.2 Leases

In applying the classification of leases in IAS 17, as a lessor, the management considers its leases as finance lease arrangements and as a lessee, the management considers its leases as operating lease. In some cases, the lease transaction is not always conclusive, and management uses judgment in determining whether the lease in an operating lease arrangement.

4.16.3 Recognition of deferred tax assets

The extent to which deferred tax liability can be recognised is based on an assessment of the probability of the Company's future taxable expenses against which the deductible temporary differences can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties (see note 4.15).

4.17 Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may substantially differ.

Impairment of non-financial assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets within the next financial year.

Provisions

Provisions are raised based on management's estimates from information available surrounding particular transactions. Prudence is exercised when estimating provisions so as not to materially overstate the Company's reported net income and understates its liabilities.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date, based on the expected utilisation of the assets to the Company. The carrying amounts are analysed in note 5. Actual results, however, may vary due to technical obsolescence, particularly relating to computers and office equipment.

Notes to the financial statements (continued)
For the year ended December 31, 2018

5 Property and equipment

2018	Office and computer equipment AZN	Motor vehicles AZN	Furniture fixture and others AZN	Other fixed assets AZN	Total AZN
Gross carrying amount					
Balance at January 1,	53,467	82,614	73,680	32,881	242,642
Additions	9,528	-	-	-	9,528
Written off	(3,440)	-	-	-	(3,440)
Balance at December 31,	59,555	82,614	73,680	32,881	248,730
Accumulated depreciation					
Balance at January 1,	49,726	71,202	40,779	26,760	188,467
Charge for the year (note 14)	2,678	8,560	3,289	1,226	15,753
Written off	(3,440)	-	-	-	(3,440)
Balance at December 31,	48,964	79,762	44,068	27,986	200,780
Net carrying amount at December 31, 2018	10,591	2,852	29,612	4,895	47,950

In the opinion of management, there has been no impairment in the carrying value of the Company's property and equipment as at December 31, 2018 (2017: Nil).

Notes to the financial statements (continued)
For the year ended December 31, 2018

5 Property and equipment (continued)

2017	Office and computer equipment AZN	Motor Vehicles AZN	Furniture fixtures and others AZN	Other fixed assets AZN	Total AZN
Gross carrying amount					
Balance at January 1,	53,417	82,614	73,680	32,881	242,592
Additions	50	-	-	-	50
Balance at December 31,	53,467	82,614	73,680	32,881	242,642
Accumulated depreciation					
Balance at January 1,	47,742	62,642	37,124	25,230	172,738
Charge for the year (note 14)	1,984	8,560	3,655	1,530	15,729
Balance at December 31,	49,726	71,202	40,779	26,760	188,467
Net carrying amount at December 31, 2017	3,741	11,412	32,901	6,121	54,175

6 Net investment in finance lease

	2018	2017
	AZN	AZN
Net investment in finance lease	**8,421,900**	6,762,601
Less: allowance for impairment loss of net investment in finance lease	**(151,275)**	(41,182)
Net investment in finance lease, net of impairment loss	**8,270,625**	6,721,419

The following table shows reconciliations from the opening to the closing balance of the allowance for impairment loss of net investment in finance lease as a result of the adoption of IFRS 9: Financial instruments. Refer to note 4.6.1 and note 4.16.1.

	2018	2017
	AZN	AZN
Balance at January 1,	**41,182**	1,875
Add: Opening adjustment as per IFRS 9 (note 4.6.1 and note 4.16.1)	**156,314**	-
	197,496	1,875
(Reversal)/Charge for the year (note 15)	**(46,221)**	39,307
Balance at December 31,	**151,275**	41,182

	2018	2017
	AZN	AZN
Current portion	**4,032,978**	3,686,153
Non-current portion	**4,237,647**	3,035,266
Total	**8,270,625**	6,721,419

	2018 AZN			
	Not later than one year	**Later than one and less than five years**	**Over five years**	**Total**
Lease rental receivable	**5,517,285**	**4,889,140**	**-**	**10,406,425**
Minimum lease payments	**5,517,285**	**4,889,140**	**-**	**10,406,425**
Finance charges for future periods	**(1,333,032)**	**(651,493)**	**-**	**(1,984,525)**
Less: allowance for impairment loss of net investment in finance lease	**(151,275)**	**-**	**-**	**(151,275)**
Present value of minimum lease payments	**4,032,978**	**4,237,647**	**-**	**8,270,625**

6 Net investment in finance lease (continued)

	2017 AZN			
	Not later than one year	Later than one and less than five years	Over five years	Total
Lease rental receivable	4,890,690	3,537,663	-	8,428,353
Minimum lease payments	4,890,690	3,537,663	-	8,428,353
Finance charges for future periods	(1,163,355)	(502,397)	-	(1,665,752)
Less: allowance for impairment loss of net investment in finance lease	(41,182)	-	-	(41,182)
Present value of minimum lease payments	3,686,153	3,035,266	-	6,721,419

7 Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities:

	Notes	2018 AZN	2017 AZN
Financial assets			
Financial assets measured at amortised cost:			
Non-current:			
Net investment in finance lease	6	**4,237,647**	3,035,266
Current:			
Net investment in finance lease	6	**4,032,978**	3,686,153
Other receivables	8	**71,129**	65,218
Cash and cash equivalents	9	**28,928**	1,083,727
		8,370,682	7,870,364
Financial liabilities			
Financial liabilities measured at amortised cost:			
Non-current:			
Borrowings	11	**1,591,392**	4,991,656
Current:			
Borrowings	11	**3,400,000**	-
Other current liabilities	12	**111,413**	64,386
		5,102,805	5,056,042

See note 4.6 for a description of the accounting policies for each category of financial instruments. A description of the Company's financial instrument risk, including risk management objectives and policies is given in note 19. Information relating to fair values is presented in note 20.

8 Advances, prepayments and other receivables

	2018	2017
Financial assets	**AZN**	AZN
Accrued interest	**71,129**	54,460
Advances to employees	**-**	10,000
Other receivables	**-**	758
	71,129	65,218
Non-financial assets		
Prepaid expenses	**13,747**	7,170
Balance at December 31,	**84,876**	72,388

9 Cash and cash equivalents

	2018	2017
	AZN	AZN
Current accounts with banks in local currency	**7,143**	144,425
Current accounts with banks in foreign currency	**22,131**	56,375
Deposits accounts*	**57**	882,927
	29,331	1,083,727
Less: allowance for impairment loss (Expected credit loss)	**(403)**	-
	28,928	1,083,727

*These represent deposits maintained with the banks carrying interest rate of 6% (2017: 6%) per annum.

The following table show reconciliations from the opening to the closing balance of the allowance for impairment loss as a result of the adoption of IFRS 9: Financial instruments. Refer to note 4.6.1 and note 4.16.1.

	2018	2017
	AZN	AZN
Balance at January 1,	**-**	-
Add: Opening adjustment as per IFRS 9 (note 4.6.1 and note 4.16.1)	**48,233**	-
Reversal of impairment loss for the year (note 15)	**(47,830)**	-
Balance at December 31,	**403**	-

Cash and cash equivalents for purpose of the statement of cash flows are given below.

	2018	2017
	AZN	AZN
Current accounts with banks in local currency	**7,143**	144,425
Current accounts with banks in foreign currency	**22,131**	56,375
Deposits accounts	**57**	882,927
	29,331	1,083,727

Notes to the financial statements (continued)
For the year ended December 31, 2018

10 Share capital

As of December 31, 2018, 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 (December 31, 2017: AZN 4,283,675 comprised of 4,283,675 ordinary shares).

The Company's issued share capital is held by the following shareholders:

	2018	2017	**2018**	2017
	%	%	**AZN**	AZN
MCB Bank Limited (Pakistan)	**99.94**	99.94	**4,281,105**	4,281,105
Mr. Ramal Jafarov (Individual person)	**0.06**	0.06	**2,570**	2,570
	100.00	100.00	**4,283,675**	4,283,675

11 Borrowings

Borrowings include the following financial liabilities:

Financial liabilities measured at amortised cost	**2018**	2017
	AZN	AZN
Local institution	**500,000**	500,000
Subsidiary of the Parent Company	**4,491,392**	4,491,656
Total	**4,991,392**	4,991,656
Current portion	**3,400,000**	-
Non-current portion	**1,591,392**	4,991,656
Total	**4,991,392**	4,991,656

On July 21, 2017 the Company entered into a loan agreement with a local institution for a total amount of AZN 500,000 at 18% interest rate per annum. During the current year, interest rate has been reduced to 13% per annum. The interest is paid on monthly basis. The principal amount of loan will be paid on July 21, 2020.

On October 31, 2017 the Company entered into a loan agreement with the Subsidiary of the Parent Company for a total amount of USD 2,000,000 at 3 month's LIBOR + 5.50% interest rate per annum plus the interest calculated will be grossed up for the applicable withholding tax applicable in the Republic of Azerbaijan to reach the total interest amount. The interest is paid on quarterly basis. The principal amount of loan will be paid on November 7, 2019.

On October 31, 2017 the Company entered into a loan agreement with the Subsidiary of the Parent Company for a total amount of USD 641,955 at 3 month's LIBOR + 5,50% interest rate per annum plus the interest calculated will be grossed up for the applicable withholding tax applicable in the Republic of Azerbaijan to reach the total interest amount. The interest is paid on quarterly basis. The principal amount of loan will be paid on April 4, 2020.

Movement in borrowings is as follows:

	2018	2017
	AZN	AZN
Balance at January 1,	**4,991,656**	7,075,762
Proceeds from new borrowings	**-**	4,990,872
Repayment of borrowings	**-**	(7,075,762)
Exchange (gain)/loss	**(264)**	784
Balance at December 31,	**4,991,392**	4,991,656

12 Other current liabilities

	2018	2017
Financial liabilities	**AZN**	AZN
Accrued liabilities	**50,659**	6,164
Accrued interest	**60,754**	58,222
	111,413	64,386
Non-financial liability		
Advances received from lessees	**65,157**	73,291
Balance at December 31,	**176,570**	137,677

13 Operating expenses

	2018	2017
	AZN	AZN
Salary and bonuses	**373,462**	354,744
Social security costs	**81,973**	78,044
Staff medical and compulsory insurance	**9,302**	6,762
	464,737	439,550

14 Administrative and general expenses

	2018	2017
	AZN	AZN
Rent expense	**102,000**	102,000
Professional services fees	**23,816**	12,640
Security expenses	**19,068**	16,800
Depreciation (note 5)	**15,753**	15,729
Bank charges	**14,445**	16,413
Vehicle running expenses	**12,898**	12,011
Audit fee	**10,620**	8,130
Communication expenses	**8,023**	7,886
Utilities expenses	**7,758**	6,288
Travelling expenses	**5,476**	4,153
State legal fees	**3,240**	2,948
Office expenses	**3,563**	3,249
Insurance expenses	**2,145**	2,146
Repair and maintenance expenses	**319**	355
Taxes other than income tax	**148**	159
Service charges on borrowing	**-**	29,009
Amortisation for the year	**-**	579
Other expenses	**832**	1,371
	230,104	241,866

15 Net reversal/(charge) of impairment loss on financial assets

	2018	2017
	AZN	AZN
Reversal/(charge) of impairment loss of net investment in finance lease (note 6)	**46,221**	(39,307)
Reversal of impairment loss of cash at banks (note 9)	**47,830**	-
	94,051	(39,307)

16 Taxation

Income tax expense

During the years ended December 31, 2018 and 2017, 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. The Company has accumulated tax losses as at December 31, 2017 and December 31, 2018, hence no income tax has been recognised in these financial statements.

Deferred tax

Deferred tax asset is measured at 20% (2017: 20%). 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. The movement in deferred tax asset recognised by the Company is as follows:

	2018	2017
	AZN	AZN
Balance at January 1,	**304,477**	483,396
Charge for the year	**(161,724)**	(178,919)
Balance at December 31,	**142,753**	304,477

The deferred tax assets as at reporting date is as follows:

	2018	2017
	AZN	AZN
Unused tax losses	**848,137**	1,522,138
Taxable temporary differences	**(134,370)**	249
Total deductible temporary differences	**713,767**	1,522,387
Deferred tax asset at the statutory tax rate (20%)	**142,753**	304,477

17 Related parties

The Company in the normal course of business carries on business with other enterprises that fall within the definition of a related party contained in IFRS. These transactions are carried out in normal course of the business and are measured at exchange amounts, being the amounts agreed by both parties.

The Company's related parties include its key management personnel, Parent Company and entities under common control as described below.

Details of related party transactions entered during the year and balances at year end are set out below:

Transactions with related parties

Nature	Relationship	2018	2017
		AZN	AZN
Short-term employee benefits	Key management personnel	**212,760**	279,665
Interest income from finance lease	Key management personnel	**1,487**	6,491
Interest income from advance to employee	Key management personnel	**312**	117
Interest expense on borrowings	Subsidiary of Parent Company	**385,856**	332,266

Balances with related parties

Nature	Relationship	2018	2017
		AZN	AZN
Cash and cash equivalents	Subsidiary of Parent Company	**22,113**	56,357
Advance to employees	Key management personnel	**-**	10,000
Net investment in finance lease	Key management personnel	**-**	54,914
Borrowings including accrued interest	Subsidiary of Parent Company	**4,552,145**	4,549,878

18 Commitments, contingencies and operation risk

Operating lease commitments

On January 5, 2018, the Company signed a lease agreement with the individual landlords. The lease agreement is for a period of 5 years and for a payment of AZN 102,000 per annum over the lease term. The minimum lease rentals to be paid are as follows:

	Minimum lease rentals			
	within 1 year	1 to 5 years	after 5 years	Total
	AZN	AZN	AZN	AZN
December 31, 2018	**102,000**	**306,000**	**-**	**408,000**
December 31, 2017	-	-	-	-

Capital commitments

The Company has no major capital commitments as at December 31, 2018 (2017: Nil).

18 Commitments, contingencies and operation risk (continued)

Loan commitment

During the year, the Company has obtained a credit line facility limited to AZN 500,000 from a local bank carrying interest rate of 13% per annum. However, the Company has no outstanding amount against this facility as at December 31, 2018. The maturity date of the facility is July 19, 2020.

Contingent liabilities

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 has been made in these financial statements.

The Company has filed a suit against one of its lessees in the 1st Baku Administrative Economic Court (the "Court") for the recovery of outstanding dues, legal fees, state duty and the leasing objects. On July 31, 2018, the Court ruled to recover from the lessee and his guarantor outstanding dues and withdraw the leasing objects in favour of the Company. The counter party has also filed an appeal to the Baku Court of Appeal requesting to cancel the decision of the Court dated July 31, 2018 and to reject the Company's claim. The case is under consideration by the Baku Court of Appeal and the Company expects high probability of decision in its favour.

Business environment and Regulatory environment

The Company's main operations are conducted in the Azerbaijan Republic. Azerbaijan continues economic reforms and development of its legal, tax, and regulatory framework to strengthen and diversify the economy. In this respect; Azerbaijan endorsed strategic road maps for development of national economy and main economic sectors in 2016. Legislation including tax, currency fluctuation and customs legislations within the Azerbaijan Republic is changing rapidly.

The future economic direction of the Azerbaijan Republic is largely dependent upon the implementation of economic, financial, legislative and monetary measures undertaken by the government. The Company's financial position will continue to be affected by developments in Azerbaijan, however; the Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in the Azerbaijan Republic.

The Company's management is closely watching these developments in current environment and taking appropriate necessary actions to support the sustainability and development of Company's business in foreseeable future. These 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.

Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretations. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a treatment, based on management's judgment of the Company's business activities, was to be challenged by the tax authorities, the Company may be assessed for additional taxes, penalties and interest. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Management believes that its interpretation of the relevant legislation as at December 31, 2018 is appropriate and that the Company's tax, and currency positions will be sustained.

19 Financial instrument risk

Risk management objectives and policies

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarised in note 7. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated in close cooperation with the Company's directors and focuses on actively securing the Company's short to medium term cash flows by minimizing the potential adverse effects on the Company's performance through internal risk reports which analyse by degree and magnitude of risks.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are follows:

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk and interest rate risk, which result from both its operating and investing activities.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Most of the Company's transactions are carried out in AZN. Exposures to currency exchange rates arise from the Company's overseas transactions, bank accounts and borrowings in foreign currencies, which are primarily denominated in US Dollar (USD).

Management of the Company does not enter future agreement to hedge its currency risk. However, these are monitored on regular basis and corrective measures initiated wherever required.

Financial assets and financial liabilities are denominated in the following currencies:

		2018		
	Notes	**AZN**	**USD**	**Total**
Financial assets:				
Net investment in finance lease	6	**8,270,625**	**-**	**8,270,625**
Other receivables	8	**71,129**	**-**	**71,129**
Cash and cash equivalents	9	**6,797**	**22,131**	**28,928**
		8,348,551	**22,131**	**8,370,682**
Financial liabilities:				
Borrowings	11	**500,000**	**4,491,392**	**4,991,392**
Other current liabilities	12	**50,659**	**60,754**	**111,413**
		550,659	**4,552,146**	**5,102,805**
Open position		**7,797,892**	**(4,530,015)**	**3,267,877**

19 Financial instrument risk (continued)

Risk management objectives and policies (continued)

Foreign currency risk (continued)

	Notes	2017		
		AZN	USD	Total
Financial assets:				
Net investment in finance lease	6	6,721,419	-	6,721,419
Other receivables	8	65,218	-	65,218
Cash and cash equivalents	9	1,027,352	56,375	1,083,727
		7,813,989	56,375	7,870,364
Financial liabilities:				
Borrowings	11	500,000	4,491,656	4,991,656
Other current liabilities	12	6,164	58,222	64,386
		506,164	4,549,878	5,056,042
Open position		7,307,825	(4,493,503)	2,814,322

The following table illustrates the sensitivity of profit/ (loss) before tax and equity in regard to the exchange rate of the AZN relative to the USD. It assumes a 10% weakening/strengthening of the AZN as at December 31, 2018 (2017: weakening/strengthening 10%). The sensitivity analysis at each reporting date is as follows:

	Profit/(loss) before tax		**Equity**	
	2018	2017	**2018**	2017
	AZN	AZN	**AZN**	AZN
AZN weakening 10% / 10%	**(453,002)**	(449,350)	**(362,402)**	(359,480)
AZN strengthening 10% / 10%	**453,002**	449,350	**362,402**	359,480

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. Management of the Company does not enter future agreement to hedge its interest rate risk. However, these are monitored on regular basis and corrective measures initiated wherever required.

Borrowings on floating interest rates are as follows:

	2018	2017
	AZN	AZN
Borrowings	**4,491,392**	4,491,656

19 Financial instrument risk (continued)

Risk management objectives and policies (continued)

Interest rate risk (continued)

The following table illustrates the sensitivity of variable rate borrowings to a reasonably possible change in interest rates of ±1% (2017: ±1%). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables held constant.

	Profit/(loss) before tax		Equity	
	AZN	AZN	AZN	AZN
	+1%	-1%	+1%	-1%
2018	**(44,914)**	**44,914**	**(35,931)**	**35,931**
2017	(44,917)	44,917	(35,933)	35,933

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company is exposed to this risk for various financial instruments, for example by granting credit terms to customers. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	2018	2017
Classes of financial assets - carrying amounts:	**AZN**	AZN
Net investment in finance lease (note 6)	**8,270,625**	6,721,419
Other receivables (note 8)	**71,129**	65,218
Cash and cash equivalents (note 9)	**28,928**	1,083,727
Total carrying amount	**8,370,682**	7,870,364

The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties. To manage its risk exposure, the Company places its cash with reputable banks.

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

19 Financial instrument risk (continued)

Risk management objectives and policies (continued)

Credit risk (continued)

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 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.

None of the Company's financial assets are secured by collateral or other credit enhancements.

Liquidity risk

Liquidity risk also referred to as funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Company maintains sufficient cash balances and monitors liquidity requirements on a regular basis and the management ensures that sufficient funds are available to meet any future commitments. The Company is also well supported by its related parties for the funding of long-term liquidity needs.

Financial liabilities as disclosed in note 7 are non-interest bearing and have contractual maturity dates of less than twelve months from the reporting date except disclosed below:

December 31, 2018	**Interest rate per annum**	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
		AZN	**AZN**	**AZN**	**AZN**
Subsidiary of the Parent Company	3 months Libor+5.5%	**3,400,000**	**1,091,392**	**-**	**4,491,392**
Local institution	13%	**-**	**500,000**	**-**	**500,00**
		3,400,000	**1,591,392**	**-**	**4,991,392**
December 31, 2017					
Subsidiary of the Parent Company	3 months Libor+5.5%	-	4,491,656	-	4,491,656
Local institution	18%	-	500,000	-	500,00
		-	4,991,656	-	4,991,656

The above amounts reflect the contractual cash flows, which may differ to the carrying values of the liabilities at the reporting date. Balances due within one year equal their carrying balances as the impact of discounting is not significant.

20 Fair value and fair value hierarchy

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).

All the financial assets and liabilities of the Company are carried at amortised cost and none of the non-financial assets and liabilities have been fair valued. Therefore, the fair value hierarchy disclosure which requires a three-level category of fair value is not disclosed because it does not have significant disclosure impact to the financial statements.

21 Capital management policies and procedures

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern; and
- to provide an adequate return to shareholders

by pricing products/services commensurately with the level of risk.

The Company monitors capital based on the carrying amount of equity less cash and cash equivalents as presented on the face of the statement of financial position. The Company sets the amount of capital in proportion to its overall financing structure.

The Company manages the capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amounts of dividends paid to shareholders and return capital to shareholders. There have been no changes in the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Capital for the reporting periods are summarised as follows:

	2018	2017
	AZN	AZN
Total equity	**3,407,170**	3,106,853
Cash and cash equivalents (note 9)	**(28,928)**	(1,083,727)
Capital	**3,378,242**	2,023,126
Total equity	**3,407,170**	3,106,853
Borrowings (note 11)	**4,991,392**	4,991,656
Overall financing	**8,398,562**	8,098,509
Capital-to-overall financing ratio	**40%**	25%

22 Reclassification

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported assets, liabilities, equity and results of operations. Further certain changes have also been made in correspondence statement of cash flows for better presentation. Furthermore, certain changes have been made in disclosures for better presentation.

	December 31, 2017 Previously reported	Effect of reclassification	December 31, 2017 Currently reported
	AZN	AZN	AZN
Current assets			
Net investment in finance lease	3,597,242	88,911	3,686,153
Advances, prepayments and other receivables	161,299	(88,911)	72,388

23 Post reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation of these financial statements.