

Viator Microcredit Azerbaijan LLC

Financial Statements
for the Year Ended 31 December 2013
and Independent Auditor's Report

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Independent Auditor's Report

To the Shareholder and the Supervisory Board of Viator Microcredit Azerbaijan LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Viator Microcredit Azerbaijan LLC ("the Company"), which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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.

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 about 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.

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

Basis for Qualified Opinion

Land and buildings of the Company were revalued as at 31 December 2012 by an independent valuation company. As explained in our report on the financial statements of the Company for the year ended 31 December 2012 we were unable to obtain sufficient appropriate audit evidence about the reliability of input data used in arriving at fair value of the land and buildings as at that date. Since opening carrying amount of land and buildings enters into the determination of financial performance we were unable to determine whether adjustments were necessary in respect of other comprehensive income reported in the statement of comprehensive income.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Viator Microcredit Azerbaijan LLC as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



10 June 2014

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2013

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the financial statements of Viator Microcredit Azerbaijan LLC ("the Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at 31 December 2013, 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, 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 and accounting standards 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.

On behalf of the Company's management the financial statements for the year ended 31 December 2013 were authorised for issue on 10 June 2014 by:



Vencent Abraham
Executive Director



Ruslan Garayev
Finance Manager

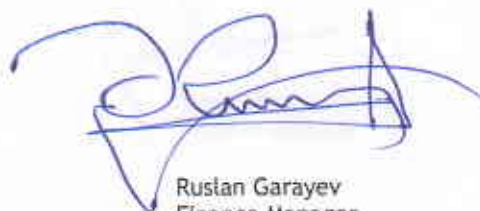
Viator Microcredit Azerbaijan LLC
Ganja Azerbaijan

Viatar Micracredit Azerbaijan LLC
Statement of Financial Position as at 31 December 2013
in Azerbaijani manats, unless otherwise indicated

ASSETS	Note	2013	2012
Cash and cash equivalents	6	1,349,011	306,696
Loans to customers	7	13,938,129	10,162,721
Property and equipment	8	587,056	676,185
Deferred tax assets	9	90,374	53,449
Other assets		12,777	8,194
TOTAL ASSETS		15,977,347	11,207,245
LIABILITIES			
Payables		122,871	114,094
Borrowings	10	9,162,522	5,041,241
Total liabilities		9,285,393	5,155,335
EQUITY			
Charter capital	11	301,622	301,622
Retained earnings		6,164,624	5,491,408
Revaluation surplus		225,708	258,880
Total equity		6,691,954	6,051,910
TOTAL LIABILITIES AND EQUITY		15,977,347	11,207,245



Vencent Abraham
Executive Director



Rustan Garayev
Finance Manager

10 June 2014

Viator Microcredit Azerbaijan LLC
Statement of Comprehensive Income for the Year Ended 31 December 2013
in Azerbaijani manats, unless otherwise indicated

	Note	2013	2012
Interest and similar income	12	3,729,095	3,145,965
Interest and similar expenses	12	(666,381)	(417,110)
Net interest income		3,062,714	2,728,855
Change in provision for impairment of loans to customers	7	(46,319)	52,618
Net interest income after loan impairment charges		3,016,395	2,781,473
Personnel expenses	13	(1,820,761)	(1,562,921)
General and administrative expenses	14	(597,565)	(516,404)
Commission income	15	347,121	474,625
Exchange rate differences		(22,777)	22,898
Other income		24,632	21,723
Profit for the year before tax		947,045	1,221,394
Grants received		-	183,328
Grants disbursed to other institutions		-	(71,682)
Income tax expense	9	(273,829)	(280,393)
Net profit		673,216	1,052,647
Other comprehensive income			
Revaluation of buildings		(33,039)	79,345
Depreciation recycled through other comprehensive income		(8,426)	(34,107)
Income tax relating to components of other comprehensive income		8,293	6,822
Other comprehensive income for the year, net of tax		(33,172)	52,060
Total comprehensive income for the year		640,044	1,104,707



Vencent Abraham
Executive Director



Ruslan Garayev
Finance Manager

10 June 2014

Viator Micracredit Azerbaijan LLC
Statement of Cash Flows for the Year Ended 31 December 2013
in Azerbaijani manats, unless otherwise indicated

	Note	2013	2012
Cash flows from operating activities			
Interest and commission fees received		4,948,520	3,575,451
Interest paid on borrowings		(627,243)	(402,035)
Loans issued to customers (net)		(4,262,814)	(2,217,956)
Payments to employees and suppliers		(2,835,139)	(1,881,103)
Grants disbursed		-	(71,682)
Current income tax paid		(213,798)	(229,038)
Other receipts less other payments		32,001	34,184
Net cash used in operating activities		(2,958,473)	(1,192,179)
Cash flows from investing activities			
Purchase of property and equipment		(22,519)	(126,515)
Proceeds from disposal of property and equipment		9,860	3,653
Net cash used in investing activities		(12,659)	(122,862)
Cash flows from financing activities			
Proceeds from borrowings		6,699,645	2,603,087
Borrowings repaid		(2,691,790)	(1,571,260)
Grants received		-	183,328
Net cash from financing activities		4,007,855	1,215,155
Exchange rate differences		5,592	7,262
Net increase in cash and cash equivalents		1,042,315	(92,624)
Cash and cash equivalents at the beginning of the year	6	306,696	399,320
Cash and cash equivalents at the end of the year	6	1,349,011	306,696



Vencent Abraham
Executive Director



Ruslan Garayev
Finance Manager

10 June 2014

Viatar Microcredit Azerbaijan LLC
Statement of Changes in Equity for the Year Ended 31 December 2013
in Azerbaijani manats, unless otherwise indicated

	Charter capital	Retained earnings	Revaluation surplus	Total equity
Balance as at 1 January 2012	9,650	4,696,653	240,900	4,947,203
Other comprehensive income, net of tax	-	-	52,060	52,060
Transfer to retained earnings	-	34,080	(34,080)	-
Increase in charter capital	291,972	(291,972)	-	-
Net profit for the year	-	1,052,647	-	1,052,647
Balance as at 31 December 2012	301,622	5,491,408	258,880	6,051,910
Other comprehensive income, net of tax	-	-	(33,172)	(33,172)
Net profit for the year	-	673,216	-	673,216
Balance as at 31 December 2013	301,622	6,164,624	225,708	6,691,954



Vincent Abraham
Executive Director



Ruslan Garayev
Finance Manager

10 June 2014

1. Principal Activities of the Company

Viator Microcredit Azerbaijan Non-Bank Credit Organisation LLC ("the Company") provides financial facilities to small entrepreneurs in various regions of Azerbaijan so that they can create jobs, build assets and improve their standard of living. It principally provides small loans to individuals and to groups of individuals that lack access to traditional financial institutions.

The Company was registered as a legal entity in the end of 2002. Prior to that it ran activities as the microfinance wing of a humanitarian organisation. The Company operates under the lending license issued by the Central Bank of Azerbaijan.

Viator AS (Kingdom of Norway) is the sole owner of the Company. Normisjon, a Norwegian Evangelical Lutheran missionary organisation is the ultimate controlling party of the Company.

The legal address of the Company is apt. 36, 133 Alovsta Guliyev street, Baku AZ1095, Azerbaijan and the location of its principal office is at 132, N.Narminanov Avenue, Ganja AZ2002, Azerbaijan. The Company has branches and offices in Ganja, Shamkir, Shaki, Gazakh, Dalimammadli, and Balakan regions of Azerbaijan.

The average number of the Company's employees as at 31 December 2013 was 135 (2012: 127).

2. Operating Environment of the Company

General

Over recent years, Azerbaijan has undergone substantial political and economic changes. As an emerging market, Azerbaijan does not possess a well-developed commercial infrastructure, which generally exists in more mature business markets. Laws and regulations affecting businesses operating within the country are subject to rapid change. In addition, continued economic stability is dependent to a large extent on the effectiveness of fiscal and monetary measures taken by the government, regulatory developments, decisions of international lending organisations, and other actions beyond the Company's control.

Although recently there have been positive economic signs in Azerbaijan, the long-term prospects for the Azerbaijani economy remain uncertain. National economy is dependent of export of hydrocarbon resources. As a result, the Company's assets and operations could be at risk resulting from any adverse changes in the political and business environment.

Financial market transactions

The global financial crisis has resulted in, among other things, global liquidity crunch which led to contraction of the international and domestic capital market, lower liquidity levels across the Azerbaijani banking sector and very high uncertainty in the domestic and foreign equity markets. The uncertainties in the global financial market have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and other countries, however its impact on financial system of Azerbaijan was has been relatively limited. Currently, it is impossible to fully assess the influence of the ongoing crisis or avoid its impact.

Investors have been re-evaluating their exposure to risks, which resulted in reduced or closed limits on transactions conducted in Azerbaijan, thereby adding to volatility. Such circumstances can affect the ability of the Company to obtain new borrowings at terms and conditions similar to those applied to earlier transactions.

Borrowers and debtors of the Company may also be affected by the repercussions of the financial crisis, which can in turn impact their ability to meet their financial obligations to the Company. To the extent that information is available, management has adequately reflected revised estimates of expected future cash flows in their impairment assessments. These financial statements do not include the adjustments reflecting the impact on the Company's financial position of further deterioration in the liquidity on the financial markets and the increased volatility in the currency and equity markets.

Inflation

The official inflation indices for the last three years are given in the table below:

Year ended	Inflation for the period
31 December 2013	2.4%
31 December 2012	1.2%
31 December 2011	8.1%

Currency transactions

National currency of Azerbaijan - manat - is the main currency used within the country. Foreign currencies, in particular the US dollars and Euro, play a significant role in measuring economic parameters of many business transactions in Azerbaijan. The table below shows the exchange rates of Azerbaijani manat ("AZN") relative to US dollar ("USD") and Euro ("EUR"):

Date	USD 1	EUR 1
31 December 2013	0.7845	1.0780
31 December 2012	0.7850	1.0377

3. Basis of Presentation

General principles

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company maintains its accounting records in accordance with the applicable legislation of the Republic of Azerbaijan. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

Functional and presentation currency

These financial statements are presented in AZN being the Company's functional and presentation currency. AZN is the prevailing currency in the economic environment where the Company conducts its ordinary activities and in which majority of receipts from operating activities are retained.

Estimates and assumptions

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements preparation, and the reported amounts of revenues and expenses during the reporting period. Issues that require best estimate and are most significant for the financial statements are disclosed in Notes 5, 7, 8 and 9.

Gauging concern

These financial statements reflect the Company management's current assessment of the impact of the Azerbaijani business environment on the operations and the financial position of the Company. The future economic direction of Azerbaijan is largely dependent upon the effectiveness of measures undertaken by the Azerbaijani Government and other factors, including regulatory and political developments which are beyond the Company's control. The Company's management cannot predict what impact these factors can have on the Company's financial position in future.

For prompt management of liquidity risk the Company regularly monitors external factors, which could influence the Company's liquidity level, and forecasts cash flows. For the medium- and long-term liquidity risk management the Company analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Company sets liquidity gap limits. The set limits are periodically reviewed to reflect the changes in external and internal environment.

Changes in Accounting Policies

The accounting policies adopted are generally consistent with those of the previous financial year.

a) New standards, interpretations and amendments effective from 1 January 2013

A number of new standards, interpretations and amendments effective for the first time for periods beginning on (or after) 1 January 2013, have been adopted in these financial statements. The nature and effect of each new standard, interpretation and amendment adopted by the group is detailed below. Note: not all new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2013 effect the Company's annual financial statements.

IAS 1 - Presentation of Items of Other Comprehensive Income - Amendments to IAS 1

The amendment requires that items of other comprehensive income must be grouped together into two sections:

- Those that will or may be reclassified into profit or loss
- Those that will not.

As the amendment only affects presentation, there is no effect on the Company's financial position or performance.

IFRS 10 Consolidated Financial Statements

IFRS 10 supersedes IAS 27(2008) *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities*, and introduces a single 'control model' for all entities, including special purpose entities (SPEs), whereby control exists when all of the following conditions are present:

- Power over investee
- Exposure, or rights, to variable returns from investee
- Ability to use power over investee to affect the entity's returns from investee.

Other changes introduced by IFRS 10 include:

- The introduction the concept of 'de facto' control for entities with less than a 50% ownership interest in an entity, but which have a large shareholding compared to other shareholders
- Potential voting rights are only considered when determining if there is control when they are substantive (holder has practical ability to exercise) and the rights are exercisable when decisions about the investee's activities that affect the investors return will or can be made
- Specific guidance for the concept of 'silos', where groups of assets (and liabilities) within one entity are ring-fenced, and each group is considered separately for consolidation.

IFRS 11 Joint Arrangements

IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities Non-monetary Contributions by Venturers*, and requires joint arrangements to be classified as either:

- Joint operations - where parties with joint control have rights to assets and obligations for liabilities, or
- Joint ventures - where parties with joint control have rights to the net assets of the investee.

Joint arrangements that are structured through a separate vehicle will generally be treated as joint ventures, unless the terms of the contractual arrangement, or other facts and circumstances indicate that the parties have rights to assets and obligations for liabilities of the arrangement, rather than rights to net assets.

Joint ventures are accounted for using the equity method (proportionate consolidation is not permitted by IFRS 11).

Parties to a joint operation account for their share of assets, liabilities, revenues and expenses in accordance with their contractual rights and obligations.

The adoption of IFRS 11 had no effect on the Company.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The standard requires a reporting entity to disclose information that helps users to assess the nature and financial effects of the reporting entity's relationship with other entities.

As the new standard affects only disclosure, there is no effect on the Company's financial position or performance.

IFRS 13 Fair Value Measurement

IFRS 13 sets out the framework for determining the measurement of fair value and the disclosure of information relating to fair value measurement, when fair value measurements and/or disclosures are required or permitted by other IFRSs.

As a result, the guidance and requirements relating to fair value measurement that were previously located in other IFRSs have now been relocated to IFRS 13.

While there has been some rewording of the previous guidance, there are few changes to the previous fair value measurement requirements. Instead, IFRS 13 is intended to clarify the measurement objective, harmonise the disclosure requirements, and improve consistency in application of fair value measurement.

IFRS 13 did not materially affect any fair value measurements of the Company's assets or liabilities, with changes being limited to presentation and disclosure, and therefore has no effect on the Company's financial position or performance.

In addition, IFRS 13 is to be applied prospectively and therefore comparative disclosures have not been presented.

See note 5 *Critical accounting estimates and judgements* for more details and further references related to fair value measurement.

IAS 19 Employee Benefits (Revised 2011)

The main changes as a consequence of the revision of IAS 19 include:

- Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans
- Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in other comprehensive income rather than in profit or loss, and cannot be reclassified in subsequent periods
- Amendments to the timing of recognition for liabilities for termination benefits
- Employee benefits expected to be settled (as opposed to 'due to be settled') wholly within 12 months after the end of the reporting period are short-term benefits, and are not discounted.

The adoption of the revised standard had no effect on the Company.

b) New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the Company's future financial statements:

IFRS 9 "Financial Instruments" (effective for annual reporting periods beginning on or after 1 January 2013; however, the date can be postponed to 1 January 2015; early adoption is permitted). This standard was issued in November 2009 as the first phase of replacing IAS 39 and replaces those parts of IAS 39 that relate to classification and measurement of financial assets. The second phase of replacing this standard regarding the classification and measurement of financial liabilities took place in October 2010. The main differences of the new standard are as follows:

- financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- an instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest

(that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss;

- all equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

Amendment to IAS 32 "*Financial Instruments: Presentation*" *Offsetting Financial Assets and Financial Liabilities* and the related disclosure (applied retrospectively for annual periods beginning on or after 1 January 2014; early application is permitted). The amendments to IAS 32 clarify existing application issues relating to the offsetting requirements.

Amendment to IFRS 7 "*Financial Instruments: Disclosure*" *Offsetting Financial Assets and Financial Liabilities* and the related disclosure (applied retrospectively for annual periods beginning on or after 1 January 2014; early application is permitted). The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

Management believes that the application of other new and revised IFRSs will not have a material impact on the financial statements.

4. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand and current bank account balances of the Company, and other short-term highly liquid investments with original maturities of three months or less. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Financial assets

The Company classifies its financial assets in the following categories:

- loans and receivables (this category includes loans to customers and receivables);
- financial assets available for sale.

The Company determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

Initial recognition of financial instruments

The Company recognises financial assets and financial liabilities in its statement of financial position when it becomes a party to the contractual obligation of a financial instrument. Regular way purchases and sales of the financial assets and liabilities are recognised using settlement date accounting.

All financial assets are initially recognised at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial instrument.

Fair value measurement

The fair value of financial instruments traded on the active market as at the reporting date is determined based on the market or dealers' quotations including transaction costs.

If a quoted market price is not available, the fair value of financial assets and financial liabilities recorded in the statement of financial position is estimated on the basis of market quotations for similar financial instruments or using various valuation techniques, including mathematical models. Where mathematical models are used, inputs are based on observable market data or judgment.

Judgment is based on such considerations as the time value of money, credit risk level, volatility of the instrument, market risk level and other applicable factors.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and
- the Company either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Loans to customers

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost using the effective interest method less provision for loan impairment.

Loans to customers are recorded when cash is advanced to borrowers.

Loans to customers originated at interest rates different from market rates are remeasured at origination to their fair values, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the statement of comprehensive income as gains / losses on origination of assets at rates above/below market. Subsequently, the carrying amount of such loans is adjusted for amortisation and the related gains/losses are recorded within the statement of comprehensive income using the effective interest method.

Impairment of financial assets

The Company assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognised in the statement of comprehensive income as they are incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and has an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Impairment of loans to customers

For loans to customers carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

Objective evidence that loans to customers are impaired includes observable data about the following events in respect of individually significant financial assets:

- default in any payments due;

- significant financial difficulty of the borrower supported by financial information at the Company's disposal;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- worsening national or local economic environment affecting the borrower;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as asset type, industry, geographical location, collateral type, payment status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criterion used for determining objective evidence of loss from impairment of due from other banks and loans to customers representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Such information may include adverse changes in the payment status of borrowers in the group (for example, an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount), national or local economic conditions that correlate with defaults on the assets in the group (for example, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of the provision account and the amount of the loss is recognised in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Loans that have not been individually assessed are then included in the group of loans that are collectively assessed for impairment. The collectively assessed loans are grouped based on similar credit risk characteristics and on their past-due status and assessed accordingly. The collectively assessment methodology strives to ensure the provision for impairment reflects the loss events that have occurred, but have not yet been identified on an individual loan basis.

The process uses a combination of historical data and current observable data that reflect the existing situation and how it may affect the current loan portfolio. Historical data used is a set of actual loss rates calculated using the historical loan loss migration analysis. Existing economic data includes actual rates. Using these data sets as inputs, the management then determines the new set of rates to be used for the next 6 month period.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with credit risk characteristics similar to those in the group or on the basis of historical information on collections of past due debts. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

In case of a write-off of the uncollectible loan and relating interest, the Company shall take necessary and adequate steps, envisaged by law, custom of business turnover or agreement, to collect this outstanding loan.

Financial liabilities

Financial liabilities are classified as financial liabilities carried at amortised cost.

Initially, a financial liability shall be measured by the Company at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost payables to suppliers, taxes payable, and borrowed funds. Borrowed funds include regular loans received by the Company and are recorded as cash is advanced to the Company.

Offsetting of 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 either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Property and equipment

Buildings held for use in the business, are stated in the financial statements at their revalued amounts, being their fair values at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Equipments are stated at cost less accumulated depreciation and impairment provision.

At each reporting date the Company assesses whether there is any indication of impairment of property and equipment. If such indication exists, the Company estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of property and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as impairment loss to the statement of comprehensive income.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and recorded as operating expenses in the statement of comprehensive income.

Repairs and maintenance are charged to the statement of comprehensive income when the expense is incurred.

Depreciation

Depreciation of property and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets. Following depreciation rates have been used:

- Buildings - 2.5-3.3% (2012: 7%)
- Furniture - 20%;
- Computers - 33%;
- Motor vehicles - 20%;
- Other assets - 25%

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

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Operating lease the Company as a lessee

Leases of property under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included into operating expenses in the statement of comprehensive income.

Charter capital

Statutory Charter capital is recorded at its nominal amount actually paid in accordance with the Company's constitution documents.

Contingent assets and liabilities

Contingent assets are not recognised in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the statement of financial position but disclosed in the financial statements unless the possibility of any outflow in settlement is remote.

Taxation

The income tax charge comprises current tax and deferred tax and is recorded in the statement of comprehensive income. Income tax expense is recorded in the financial statements in accordance with the applicable legislation of Azerbaijan. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted during the reporting period.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current or prior periods. Tax amounts are based on estimates if financial statements are authorised prior to filing relevant tax returns.

Deferred income tax is provided using the balance sheet liability method for tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carryforwards will be utilised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Judgment is required to determine the amount of deferred tax assets that may be recognised in financial statements based on probable periods and amounts of future taxable profits and future tax planning strategies.

Azerbaijan also has various other taxes, which are assessed on the Company's activities. These taxes are recorded within operating expenses in the statement of comprehensive income.

Income and expense recognition

Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial

instrument, but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income includes coupons earned on fixed-income financial assets and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are recorded on an accrual basis after the service is provided. Loan origination fees for loans that are not yet provided, but are probable of being drawn down, are recognised within other assets and are subsequently taken into account in calculation of effective yield on the loan. Fees and commissions arising from negotiating a transaction for a third party, such as the acquisition of loans, shares and other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the statement of comprehensive income. Investment portfolio and other advisory service fees are recognised based on the applicable service contracts.

Employee benefits and social insurance contributions

The Company pays social security contributions in the territory of Azerbaijan. These contributions are recorded on an accrual basis. The Company does not have pension arrangements separate from the state pension system of Azerbaijan. Wages, salaries, contributions to the State Social Protection Fund, paid annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Company's employees render the related service.

Foreign currency

Foreign currency transactions are translated into the functional currency at the Central Bank of the Republic of Azerbaijan exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the Central Bank's exchange rate ruling at the reporting date. Foreign exchange gains and losses resulting from revaluation of transactions in foreign currency are recorded in the statement of comprehensive income within foreign exchange translation gains less losses. Non-monetary items denominated in foreign currency and carried at cost are restated at the Central Bank's exchange rate in effect at the transaction date. Non-monetary items denominated in foreign currency and carried at fair value are restated at the exchange rate in effect at the date the fair value is determined.

Gains and losses on purchase and sale of foreign currency are determined as the difference between the selling price and the carrying amount at the date of the transaction.

Grants

A government grant is recognised only when there is reasonable assurance that:

- the Company will comply with any conditions attached to the grant
- and the grant will be received

The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

A grant received as compensation for costs already incurred or for immediate financial support, with no future related costs, is recognised as income in the period in which it is received.

A grant relating to assets is presented in one of two ways:

- as deferred income, or
- by deducting the grant from the asset's carrying amount.

A grant relating to income is reported separately as 'Grants received'

5. Critical Accounting Estimates and Judgments

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for impairment of loans to customers

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan credit loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimated future cash flows for specific counterparty allowances are forecast and the model assumptions and parameters used in determining collective allowances.

Fair value of financial instruments

The Company determines the fair value of financial instruments that are not quoted, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately.

Useful lives of property and equipment, and intangible assets

As described in the Note 4 above, the Company reviews the estimated useful lives of property, plant and equipment, and intangible assets at the end of each reporting period.

Legal proceedings

In accordance with IFRSs the Company recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the financial statements could have a material effect on the Company's financial position. Application of these accounting principles to legal cases requires the Company's management to make determinations about various factual and legal matters beyond its control. The Company reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or

assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Company's management as to how it will respond to the litigation, claim or assessment.

Income taxes

The Company is subject to income tax and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the company's belief that its tax return positions are supportable, the company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

6. Cash and Cash Equivalents

	2013	2012
Cash on hand	7,907	6,654
Cash balances with banks	1,341,104	300,042
Total cash and cash equivalents	1,349,011	306,696

7. Loans to Customers

	2013	2012
Gross loans to customers	14,114,303	10,134,340
Interest receivable	197,517	153,027
Deferred commission fees	(299,935)	(85,333)
Provision for impairment of loans to customers	(73,756)	(39,313)
Loans to customers, net	13,938,129	10,162,721

Movements in the provision for impairment of loans to customers during 2013 and 2012 are as follows:

	2013	2012
Provision for impairment of loans to customers as at 1 January	39,313	123,086
Provision for impairment during 2013	46,319	(52,618)
Less amount written off as uncollectable	(11,876)	(31,155)
Provision for impairment of loans to customers as at 31 December	73,756	39,313

Economic sector concentrations within Company's gross loan portfolio are as follows:

	2013		2012	
	Amount	%	Amount	%
Agriculture	7,709,819	55%	4,840,458	48%
Service	3,353,101	24%	2,611,413	26%
Trade	2,394,803	16%	1,908,720	19%
Manufacturing	648,580	5%	773,749	7%
Other	8,000	0%	-	0%
Total loans to customers (gross)	14,114,303	100%	10,134,340	100%

Below is the credit quality analysis of loans collectively assessed for impairment as at 31 December 2013:

	Loans before impairment provision	Impairment provision	Loans less impairment provision	Ratio of impairment provision to total loans before impairment provision
Loans not past due	13,791,953	54,105	13,737,848	0.39%
Less than 1 month overdue	968	495	473	51.14%
1 to 3 months overdue	1,257	635	622	50.52%
3 to 6 months overdue	20,190	18,521	1,669	91.73%
Interest receivable	197,517	-	197,517	0.00%
Total loans	14,011,885	73,756	13,938,129	0.53%

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Loans not past due represent loans issued to borrowers with high level of liquidity and profitability. Collectively impaired loans include loans grouped in homogeneous pools of claims sharing common characteristics in respect of risk exposure and collectively assessed by the Company.

Below is the credit quality analysis of loans collectively assessed for impairment as at 31 December 2012:

	Loans before impairment provision	Impairment provision	Loans less impairment provision	Ratio of impairment provision to total loans before impairment provision
Loans not past due	10,021,664	30,770	9,990,894	0.31%
Less than 1 month overdue	17,651	354	17,297	2.00%
1 to 3 months overdue	4,827	3,324	1,503	68.86%
3 to 6 months overdue	4,865	4,865	-	100.00%
Interest receivable	153,027	-	153,027	00.00%
Total loans	10,202,034	39,313	10,162,721	0.39%

Value of collateral held by the Company as security for loans to customers as at 31 December 2013 was AZN 1,410,229 (2012: AZN 1,734,569) The collateral value of the security may differ from its fair value.

8. Property and Equipment

Movement of property and equipment in 2013 was as follows:

	Land and buildings	Computers and equipment	Vehicles	Furniture	Other assets	Total
Gross book value						
Balance as at 31 December 2012	527,994	51,351	216,265	26,625	50,722	872,957
Additions	-	5,870	11,500	1,780	3,715	22,865
Disposals / Eliminated on revaluation	(16,922)	(2,592)	(18,397)	(244)	(2,954)	(41,109)
Revaluation	(33,039)	-	-	-	-	(33,039)
Impairment	(6,033)	-	-	-	-	(6,033)
Balance as at 31 December 2013	472,000	54,629	209,368	28,161	51,483	815,641
Accumulated depreciation						
Balance as at 31 December 2012	2,839	35,748	107,658	16,517	34,010	196,772
Depreciation charge	14,083	11,705	37,046	3,131	6,751	72,716
Elimination on disposal	-	(2,591)	(18,260)	(244)	(2,886)	(23,981)
Elimination on revaluation	(16,922)	-	-	-	-	(16,922)
Balance as at 31 December 2013	-	44,862	126,444	19,404	37,875	228,585
Net book value						
Balance as at 31 December 2012	525,155	15,603	108,607	10,108	16,712	676,185
Balance as at 31 December 2013	472,000	9,767	82,924	8,757	13,608	587,056

Movement of property and equipment in 2012 was as follows:

	Land and buildings	Computers and equipment	Vehicles	Furniture	Other assets	Total
Gross book value						
Balance as at 1 January 2012	431,000	47,497	196,371	19,163	44,706	738,737
Additions	77,994	5,745	33,641	7,609	6,545	131,534
Disposals	-	(1,891)	(13,747)	(147)	(529)	(16,314)
Revaluation	19,000	-	-	-	-	19,000
Balance as at 31 December 2012	527,994	51,351	216,265	26,625	50,722	872,957
Accumulated depreciation						
Balance as at 1 January 2012	-	27,971	86,842	14,681	29,036	158,530
Depreciation charge	63,184	9,619	33,965	1,983	5,503	114,254
Elimination on disposal	-	(1,842)	(13,149)	(147)	(529)	(15,667)
Elimination on revaluation	(60,345)	-	-	-	-	(60,345)
Balance as at 31 December 2012	2,839	35,748	107,658	16,517	34,010	196,772
Net book value						
Balance as at 1 January 2012	431,000	19,526	109,529	4,482	15,670	580,207
Balance as at 31 December 2012	525,155	15,603	108,607	10,108	16,712	676,185

The Company's buildings are represented by premises which were valued by an independent firm of valuers "MAK Consultancy Baku Ltd" Consulting Company as at 31 December 2013. The valuation, which was performed to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

9. Income Taxes

Income tax expense comprises the following:

	2013	2012
Current income tax charge	302,461	273,458
Deferred income tax charge/(credit)	(28,632)	6,935
Total income tax expense for the year	273,829	280,393

The current tax rate applicable to the Company's profit is 20% (2012: 20%).

Reconciliation between the theoretical and the actual taxation charge is provided below:

	2013	2012
Profit for the year before tax	947,045	1,221,394
Theoretical tax charge at statutory rate of 20%	189,409	244,279
Non-deductible expenses less non-taxable income	84,420	36,114
Total income tax expense for the year	273,829	280,393

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Differences between IFRS and statutory taxation regulations of the Azerbaijan give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for the Company's profit tax purposes.

	2013			2012		
	Assets	Liabilities	Net asset/ (liability)	Assets	Liabilities	Net asset/ (liability)
Loans to customers	69,052	-	69,052	63,680	-	63,680
Property and equipment	-	(10,896)	(10,896)	-	(8,776)	(8,776)
Other assets	-	(91)	(91)	-	(446)	(446)
Borrowings	9,624	-	9,624	1,812	-	1,812
Payables	22,685	-	22,685	-	(2,821)	(2,821)
Net tax assets	101,361	(10,987)	90,374	65,492	(12,043)	53,449

Net deferred tax assets represent the amounts of income tax that may be offset against future income taxes and are reported as deferred tax assets in the statement of financial position.

Reconciliation of allocation of deferred tax gain / (charge) for the year between the comprehensive income and other comprehensive income was as follows:

	2013	2012
Deferred tax asset as at 1 January	53,449	53,562
Deferred tax credit/(charge) for the year	28,632	(6,935)
Income tax relating to components of other comprehensive income	8,293	6,822
Deferred tax asset as at 31 December	90,374	53,449

Provisions of tax legislation of Azerbaijan often are subject to varying interpretations by tax payers and tax authorities. The management aims to apply requirements of law prudently and conservatively to minimise risk of penalties.

10. Borrowings

	2013	2012
Principal amount payable	9,049,096	4,985,916
Accrued interest expenses	150,475	70,528
Deferred fees	(37,049)	(15,203)
Total borrowings	9,162,522	5,041,241

Borrowings have the following contractual maturities:

	2013	2012
2013	-	2,800,694
2014	3,705,934	1,766,250
2015	3,668,970	489,500
2016	1,824,667	-
Total borrowings	9,199,571	5,056,444

11. Charter capital

Charter capital of the Company is AZN 301,622 (2012: AZN 301,622).

Viator AS (Kingdom of Norway) owns 100% shares of the Company.

	2013	2012
Number of shares	100	100
Par value of a share	3,016.22	3,016.22
Total charter capital	301,622	301,622

12. Interest and Similar Income and Expense

	2013	2012
Interest income on loans to customers	3,729,095	3,145,965
Interest ~~expense~~ on borrowings	(666,381)	(417,110)
Net interest income	3,062,714	2,728,855

13. Personnel Expenses

	2013	2012
Wages and salaries	1,067,791	856,812
Allowances, incentives and other benefits	436,561	433,035
Compulsory social security obligations	316,409	273,074
Total personnel expenses	1,820,761	1,562,921

14. General and Administrative Expenses

	2013	2012
Bank fees	83,915	44,674
Professional services	81,390	52,430
Depreciation charge	72,716	114,254
Security expenses	61,847	29,920
Rent	34,396	27,665
Training	32,623	30,637
Transportation and vehicle costs	26,003	49,701
Office stationery	17,517	14,500
Business trip	13,695	3,955
Utilities	13,091	16,686
Institutional development	12,499	12,780
Repair and maintenance	6,083	16,502
Other ~~general~~ expenses	141,790	102,700
Total general and administrative expenses	597,565	516,404

15. Commission Income

	2013	2012
Commission fees and risk fees	324,236	436,057
Application fees	5,638	22,078
Penalties	17,247	16,490
Total commission income	347,121	474,625

16. Risk Management

Risk management is fundamental to the Company's business and is an essential element of the Company's operations. The main financial risks inherent to the Company's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates. A summary description of the Company's risk management policies in relation to those risks follows.

Credit risk

The Company is exposed to credit risk, being 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 structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to borrowers. Limits on the level of credit risk by borrower is reviewed and approved by management. Actual exposure per borrower against limits is monitored on new loans granted. Where appropriate, and in the case of most loans, the Company obtains collateral and guarantees. The credit risks are monitored on a continuous basis and are subject to regular reviews especially where no such security can be obtained.

The Company measures credit risk in the following ways:

Aged portfolio-at risk ratio. This identifies loans that are late and therefore considered impaired.

Evaluation of "at-risk" categories. This covers loans that are not late but on the basis of historical data are likely to include some loans that are impaired.

Evaluation of likely losses as a result of death or disability of customers. The Company writes-off such debts.

In the case of portfolio-at-risk ratio, loans are separated into classes depending on the number of days they are overdue. For each class of loan, the outstanding principal balance of such loans is divided by the outstanding principal balance of the gross loan portfolio (that is, before deducting the allowance for loan loss). Loans are considered overdue if any payments has fallen due and remained unpaid. Loan repayments are applied first to any interest due, and then to any instalment of principal that is due but unpaid, beginning with the earliest such instalment. The number of days of lateness is based on the due date of the earliest loan instalment that has not been fully repaid. The Company does not convert late or penalty interest into principal.

An additional allowance has been made to cover losses according to each sector. This is based on historical default rates for each industry sector.

The Company very occasionally reschedules loans, in the case of a customer suffering unusual loss.

Geographical risk. The geographical concentration of the Company's assets and liabilities as at 31 December 2013 is set out below:

	Azerbaijan	OECD	Total
Assets			
Cash and cash equivalents	1,349,011	-	1,349,011
Loans to customers	13,938,129	-	13,938,129
Property and equipment	587,056	-	587,056
Deferred tax assets	90,374	-	90,374
Other assets	12,777	-	12,777
Total assets	15,977,347	-	15,977,347
Liabilities			
Payables	122,871	-	122,871
Borrowings	1,000,000	8,162,522	9,162,522
Total liabilities	1,122,871	8,162,522	9,285,393
Net balance sheet position	14,854,476	(8,162,522)	6,691,954

The geographical concentration of the Company's assets and liabilities as at 31 December 2012 is set out below:

	Azerbaijan	OECD	Total
Assets			
Cash and cash equivalents	306,696	-	306,696
Loans to customers	10,162,721	-	10,162,721
Property and equipment	676,185	-	676,185
Deferred tax asset	53,449	-	53,449
Other assets	8,194	-	8,194
Total assets	11,207,245	-	11,207,245
Liabilities			
Payables	114,094	-	114,094
Borrowings	-	5,041,241	5,041,241
Total liabilities	114,094	5,041,241	5,155,335
Net balance sheet position	11,093,151	(5,041,241)	6,051,910

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below summarises the Company's exposure to foreign currency exchange rate risk as at 31 December 2013.

	AZN	USD	EUR	Total
Assets				
Cash and cash equivalents	488,690	860,318	3	1,349,011
Loans to customers	10,179,547	3,758,582	-	13,938,129
Property and equipment	587,056	-	-	587,056
Deferred tax assets	90,374	-	-	90,374
Other assets	12,777	-	-	12,777
Total assets	11,358,444	4,618,900	3	15,977,347
Liabilities				
Payables	122,871	-	-	122,871
Borrowings	2,697,326	6,079,875	385,321	9,162,522
Total liabilities	2,820,197	6,079,875	385,321	9,285,393
Net balance sheet position	8,538,247	(1,460,975)	(385,318)	6,691,954

As at 31 December 2012 the Company had the following positions in currencies:

	AZN	USD	EUR	Total
Assets				
Cash and cash equivalents	181,967	124,725	4	306,696
Loans to customers	7,060,244	3,102,477	-	10,162,721
Property and equipment	676,185	-	-	676,185
Deferred tax assets	53,449	-	-	53,449
Other assets	8,194	-	-	8,194
Total assets	7,980,039	3,227,202	4	11,207,245
Liabilities				
Payables	114,094	-	-	114,094
Borrowings	1,151,021	3,511,121	379,099	5,041,241
Total liabilities	1,265,115	3,511,121	379,099	5,155,335
Net balance sheet position	6,714,924	(283,919)	(379,095)	6,051,910

Liquidity risk Liquidity risk refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they actually fall due.

The risk is principally mitigated because the Company's operations are financed almost exclusively by grants which have been a stable source of finance and accordingly no material financial commitment exists. As an additional tool to manage liquidity risk, the Company performs regular monitoring of expected future cash flows on customer and other operations, which is a part of the asset/liabilities management process.

The Company monitors the expected maturity limits presented in the table below as at 31 December 2013:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	1,349,011	-	-	-	-	1,349,011
Loans to customers	86,031	1,741,856	7,193,221	4,917,021	-	13,938,129
Property and equipment	-	-	-	115,056	472,000	587,056
Deferred tax asset	-	-	-	90,374	-	90,374
Other assets	12,777	-	-	-	-	12,777
Total assets	1,447,819	1,741,856	7,193,221	5,122,451	472,000	15,977,347
Liabilities						
Payables	-	122,871	-	-	-	122,871
Borrowings	147,822	1,786,747	1,767,937	5,460,016	-	9,162,522
Total liabilities	147,822	1,909,618	1,767,937	5,460,016	-	9,285,393
Net liquidity gap as at 31 December 2013	1,299,997	(167,762)	5,425,284	(337,565)	472,000	6,691,954
Cumulative gap as at 31 December 2013	1,299,997	1,132,235	6,557,519	6,219,954	6,691,954	

The table below shows the maturity analysis of undiscounted financial liabilities as at 31 December 2013:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Payables	-	122,871	-	-	-	122,871
Borrowings	160,908	4,198,267	2,868,006	2,294,664	-	9,521,845
Total liabilities	160,908	4,321,138	2,868,006	2,294,664	-	9,644,716

The table below shows the expected maturity analysis as at 31 December 2012:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	306,696	-	-	-	-	306,696
Loans to customers	64,136	1,929,711	6,301,179	1,867,695	-	10,162,721
Property and equipment	-	-	-	148,678	527,507	676,185
Deferred tax asset	-	-	-	53,449	-	53,449
Other assets	8,194	-	-	-	-	8,194
Total assets	379,026	1,929,711	6,301,179	2,069,822	527,507	11,207,245
Liabilities						
Payables	-	114,094	-	-	-	114,094
Borrowings	125,249	2,347,037	868,872	1,700,083	-	5,041,241
Total liabilities	125,249	2,461,131	868,872	1,700,083	-	5,155,335
Net liquidity gap as at 31 December 2012	253,777	(531,420)	5,432,307	369,739	527,507	6,051,910
Cumulative gap as at 31 December 2012	253,777	(277,643)	5,154,664	5,524,403	6,051,910	

The table below shows the maturity analysis of undiscounted financial liabilities as at 31 December 2012:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Payables	-	114,094	-	-	-	114,094
Borrowings	114,822	2,657,278	415,431	2,127,437	-	5,314,968
Total liabilities	114,822	2,771,372	415,431	2,127,437	-	5,429,062

In the opinion of the Company's management, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental for successful management of the Company. It is unusual for the lending institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Company and its exposure to changes in interest and exchange rates.

Interest rate risk Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Most of the Company's interest earnings assets are at fixed rates of annual interest of 33-37%. The Company's long-term liabilities bear fixed annual interest of 9%. Consequently it does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The table below summarises the Company's exposure to interest rate risks as at 31 December 2013. Included in the table are the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Non- interest bearing	Total
Assets						
Cash and cash equivalents					1,349,011	1,349,011
Loans to customers	86,031	1,741,856	7,193,221	4,917,021	-	13,938,129
Property and equipment					587,056	587,056
Deferred tax assets					90,374	90,374
Other assets					12,777	12,777
Total assets	86,031	1,741,856	7,193,221	4,917,021	2,039,218	15,977,347
Liabilities						
Payables					122,871	122,871
Borrowings	147,822	1,786,747	1,767,937	5,460,016	-	9,162,522
Total liabilities	147,822	1,786,747	1,767,937	5,460,016	122,871	9,285,393
Net interest rate gap as at 31 December 2013	(61,791)	(44,891)	5,425,284	(542,995)	1,916,347	6,691,954
Cumulative interest rate gap as at 31 December 2013	(61,791)	(106,682)	5,318,602	4,775,607	6,691,954	-

The table below summarises the Company's exposure to interest rate risks as at 31 December 2012.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Non- interest bearing	Total
Assets						
Cash and cash equivalents					306,696	306,696
Loans to customers	64,136	1,929,711	6,301,179	1,867,695	-	10,162,721
Property and equipment					676,185	676,185
Deferred tax assets					53,449	53,449
Other assets					8,194	8,194
Total assets	64,136	1,929,711	6,301,179	1,867,695	1,044,524	11,207,245
Liabilities						
Payables					114,094	114,094
Borrowings	125,249	2,347,037	868,872	1,700,083	-	5,041,241
Total liabilities	125,249	2,347,037	868,872	1,700,083	114,094	5,155,335
Net interest rate gap as at 31 December 2012	(61,113)	(417,326)	5,432,307	167,612	930,430	6,051,910
Cumulative interest rate gap as at 31 December 2012	(61,113)	(478,439)	4,953,868	5,121,480	6,051,910	-

The Company monitors financial instrument interest rates. The table below shows the interest rates on the basis of reports that were analysed by the Company's key managers as at 31 December 2013 and 2012:

	2013			2012	
	AZN	USD	EUR	AZN	USD
Assets					
Loans to customers	28.8% to 34.8%	28.8% to 30%	-	30% to 32%	30% to 37%
Liabilities					
Borrowings	11% to 14%	8.5% to 10%	9%	11.57%	9% to 9.5%

The "-" sign in the table above means that the Company does not have respective assets or liabilities in the corresponding currency.

17. Capital Management

Currently no capital requirements have been established by the Central Bank of the Azerbaijan Republic for non-bank credit organisation. Management's focus in respect of the Company's capital management has the following objectives: ensuring the Company's ability to operate as a going concern and maintain balances in order to comply with covenants imposed by lenders and investors. This is exercised daily in respect of the projected and actual data and on the basis of monthly reports with the corresponding calculations that are verified and signed by the Deputy Director and Chief Accountant of the Company.

18. Events After the Reporting Period

In May 2014 the Company took decision to increase its charter capital by capitalising portion of its retained earnings generated from grants received. The implementation of this decision is subject to registration of this increase with the Ministry of Taxes of Azerbaijan.

19. Contingent Liabilities

Legal issues. In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company and accordingly no provision has been made as in the management's opinion the possibility of material losses is low.

Tax legislation. As disclosed in Note 9 above Azerbaijani tax legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional or federal authorities. Recent events in Azerbaijan have shown that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of the review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2012, the management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency and customs positions will be sustained by controlling bodies.

20. Fair Value of Financial Instruments

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced or liquidation sale. Quoted financial instruments in active markets provide the best evidence of fair value. As no readily available market exists for major part of the Company's financial instruments, the fair value shall be estimated based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Company could realise in a market exchange from the sale of its full holdings of a particular instrument.

Management believes that carrying values of the Company's financial assets and liabilities approximate their fair values.

The Company uses the following methods and assumptions to estimate the fair value of the financial instruments:

Loans to customers. Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates. The management believes that the fair values of loans to customers as at 31 December 2013 and 31 December 2012 do not materially differ from respective carrying amounts. This is primarily due to the existing practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Borrowings. The fair value of fixed interest bearing financial liabilities carried at amortised cost is determined by comparing the market interest rates at initial recognition of these instruments with current market rates on similar financial instruments. The estimated fair value of fixed interest bearing securities is based on discounted cash flows using interest rates for debt instruments with similar credit risk and maturity. The fair value of debt securities actively traded on an exchange is based on their market quotations.

The fair value of variable rate borrowings without market quotations is based on discounted cash flows using interest rates for debt instruments with similar maturity. The estimated fair value of other borrowed funds approximates their carrying value as these instruments do not have market quotations and are attracted at floating interest rate.

21. Reconciliation of Categories of Financial Instruments with Measurement Categories

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Company classifies its financial assets in the following categories: 1) loans and receivables; 2) financial assets available for sale.

At the same time, in accordance with IFRS 7 "Financial Instruments: Disclosures" the Company discloses different classes of financial instruments. As at 31 December 2013 and 2012 all financial assets of the Company were classified as loans and receivables.

All financial liabilities of the Company are classified as measured at amortised cost.

22. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely the legal form.

In the normal course of business the Company enters into transactions with its major shareholders, directors, subsidiaries and other related parties. These transactions include settlements, issuance of loans, deposit taking, guarantees, trade finance and foreign currency transactions. According to the Company's policy the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

The outstanding balances at the year end and asset transactions with related parties for 2013 are as follows:

	2013			2012
	Key management personnel	Normisjon	Viator AS	Key management personnel
Balances				
Payables	26,337	-	232,953	-
Transactions				
Non-interest expense	188,096	-	-	84,839
Grant received	-	183,328	-	-