

**NON-BANKING CREDIT ORGANIZATION
“VIATOR MICROCREDIT AZERBAIJAN”
LIMITED LIABILITY COMPANY**

**The International Financial Reporting
Standards Financial Statements and
Independent Auditors' Report
For the Year Ended December 31, 2017**

NON-BANKING CREDIT ORGANIZATION "VIATOR MICROCREDIT AZERBAIJAN" LIMITED LIABILITY COMPANY

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the financial statements of Non-Banking Credit Organization "Viator Microcredit Azerbaijan" Limited Liability Company (the "Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at December 31, 2017, the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation 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, errors and other irregularities.

The financial statements for the year ended December 31, 2017 were authorized for issue on May 04, 2018 by the Management Board of the Company.

On behalf of the Management Board:

Aynur Aliyeva
Executive Director

May 04, 2018
Ganja, the Republic of Azerbaijan



Ruslan Garayev
Finance Manager

May 04, 2018
Ganja, the Republic of Azerbaijan



INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of Non-Banking Credit Organization "Viator Microcredit Azerbaijan" Limited Liability Company:

Opinion

We have audited the financial statements of "Viator Microcredit Azerbaijan" Limited Liability Company as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), 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

The financial statements of the Company for the year ended December 31, 2016 were audited by other auditors who expressed opinion on those statements on March 27, 2017.

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 have no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

04 May 2018

Baku, Republic of Azerbaijan

Nexia EA LLC



**NON-BANKING CREDIT ORGANIZATION "VIATOR MICROCREDIT AZERBAIJAN"
LIMITED LIABILITY COMPANY**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
AS AT DECEMBER 31, 2017**

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
Interest income	15	1,810,608	3,944,498
Interest expense	15	(230,456)	(919,282)
Net interest income before provision for impairment losses on interest bearing assets		1,580,152	3,025,216
Provision for impairment losses on interest bearing assets		(1,189,843)	(3,444,909)
Net interest income/(loss)		390,309	(419,693)
Staff costs and related contributions	4, 15	(1,079,464)	(1,240,777)
General and administrative expenses	5	(533,022)	(544,368)
Foreign exchange loss		(64,993)	(129,289)
Other income, net		15,323	50,144
Other gain		14,101	
Loss before income tax		(1,257,746)	(2,283,983)
Income tax expense	6	(75,122)	(90,371)
Net loss for the year		(1,332,868)	(2,374,354)
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss			
Net gain resulting on revaluation of property and equipment	10	-	-
Income tax recorded directly in other comprehensive income	7	-	-
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,332,868)	(2,374,354)

On behalf of the Management Board:

Aynur Aliyeva
Executive Director

May 04, 2017
Ganja, the Republic of Azerbaijan



Ruslan Garayev
Finance Manager

May 04, 2017
Ganja, the Republic of Azerbaijan

The notes on pages 8-41 form an integral part of these financial statements.

**NON-BANKING CREDIT ORGANIZATION "VIATOR MICROCREDIT AZERBAIJAN"
LIMITED LIABILITY COMPANY**

**STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017
(In Azerbaijani Manats)**

	Notes	December 31, 2017	December 31, 2016
ASSETS			
Cash and cash equivalents	7	75,726	341,983
Loans to customers	8, 15	4,404,088	7,919,504
Property and equipment	9	492,140	482,783
Deferred income tax asset	6	122,846	186,851
Other assets	10	146,704	32,958
TOTAL ASSETS		5,241,504	8,964,079
LIABILITIES AND EQUITY			
LIABILITIES:			
Borrowings	11, 15	4,550,647	6,917,944
Other liabilities	12, 15	15,324	37,734
Total liabilities		4,565,971	6,955,678
EQUITY:			
Charter capital	13	693,774	693,774
Revaluation surplus		196,432	213,610
Retained earnings		(214,673)	1,101,017
Total equity		675,533	2,008,401
TOTAL LIABILITIES AND EQUITY		5,241,504	8,964,079

On behalf of the Management Board:

Aynur Aliyeva
Executive Director

May 04, 2018
Ganja, the Republic of Azerbaijan



Ruslan Garayev
Finance Manager

May 04, 2018
Ganja, the Republic of Azerbaijan

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**NON-BANKING CREDIT ORGANIZATION "VIATOR MICROCREDIT AZERBAIJAN"
LIMITED LIABILITY COMPANY**

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017**

(In Azerbaijani Manats)

	Charter capital	Revaluation surplus	Retained earnings	Total equity
January 1, 2016	<u>693,774</u>	<u>221,183</u>	<u>3,467,798</u>	<u>4,382,755</u>
Net loss for the year	-	-	(2,374,354)	(2,374,354)
Amortization of revaluation surplus	-	(7,573)	7,573	-
December 31, 2016	<u>693,774</u>	<u>213,610</u>	<u>1,101,017</u>	<u>2,008,401</u>
Net loss for the year	-	-	(1,332,868)	(1,332,868)
Amortization of revaluation surplus	-	(17,178)	17,178	-
December 31, 2017	<u>693,774</u>	<u>196,432</u>	<u>(214,673)</u>	<u>675,533</u>

On behalf of the Management Board:

Aynur Aliyeva
Executive Director

May 04, 2018
Ganja, the Republic of Azerbaijan



Ruslan Garayev
Finance Manager

May 04, 2018
Ganja, the Republic of Azerbaijan

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**NON-BANKING CREDIT ORGANIZATION "VIATOR MICROCREDIT AZERBAIJAN"
LIMITED LIABILITY COMPANY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Azerbaijani Manats)**

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		1,669,906	3,028,379
Interest paid		(241,436)	(1,164,749)
Loans collected from customers, net		2,466,275	4,537,795
Payments to employees and suppliers		(1,548,521)	(1,483,936)
Taxes paid		(120,772)	(134,870)
Other receipts less other payments		16,051	-
Net cash inflow from operating activities		2,241,503	4,782,619
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for property and equipment		(86,450)	(1,425)
Proceeds from disposal of property and equipment		-	51,504
Net cash (outflow)/inflow from investing activities		(86,450)	50,079
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		-	-
Repayment of borrowings		(2,356,317)	(7,978,661)
Dividends paid		-	-
Net cash outflow to financing activities		(2,356,317)	(7,978,661)
Effect of exchange rate changes on cash and cash equivalents		(64,993)	313,677
NET DECREASE IN CASH AND CASH EQUIVALENTS		(266,257)	(2,832,286)
CASH AND CASH EQUIVALENTS, <i>beginning of the year</i>	7	341,983	3,174,269
CASH AND CASH EQUIVALENTS, <i>end of the year</i>	7	75,726	341,983

On behalf of the Management Board:

Aynur Aliyeva
Executive Director

May 04, 2018
Ganja, the Republic of Azerbaijan



Ruslan Garayev
Finance Manager

May 04, 2018
Ganja, the Republic of Azerbaijan

The notes on pages 8-41 form an integral part of these financial statements.

**NON-BANKING CREDIT ORGANIZATION "VIATOR MICROCREDIT AZERBAIJAN"
LIMITED LIABILITY COMPANY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(In Azerbaijani Manats)

1. INTRODUCTION

Company and its principal activity

"Viator Microcredit Azerbaijan" Limited Liability Company (the "Company") is a Non-Banking Credit Organization, which was incorporated and registered in Baku city Tax Department of Ministry of Taxes of the Republic of Azerbaijan under the registration number TIN1400163551 on December 30, 2002. The Company is regulated by the Central Bank of the Republic of Azerbaijan (the "CBRA") and conducts its business under special license number 136-QB. The Company's primary business consists of loan origination. Under the existing license the Company does not have the right to obtain cash deposits as collateral. The head office of the Company is located in Ganja, the Republic of Azerbaijan.

As at December 31, 2017 and 2016, the Company had 6 branches and the average number of employees was 87 and 116, respectively.

Registered address and place of business

The legal address of the Company is 133 Bashir Safaroglu Street, Baku, the Republic of Azerbaijan and the location of its head office is N. Narimanov Ave., 132, Ganja, the Republic of Azerbaijan.

Shareholders of the Company

Viator AS (Kingdom of Norway) is the sole owner of the Company. Normisjon, a Norwegian Evangelical Lutheran missionary organization is the ultimate controlling party of the Company as at December 31, 2017 and 2016.

Operating Environment of the Company

The Company's operations are conducted in the Republic of Azerbaijan. As an emerging market, at the present time the Republic of Azerbaijan is developing business and regulatory infrastructure that would generally exist in a more mature market economy.

Major indicators of the Azerbaijan economy were influenced by a number of negative factors. Considering significant drop in crude oil prices starting from the second half of 2014, there continues to be uncertainty regarding the economic growth, access to capital and cost of capital in the Republic of Azerbaijan, because Azerbaijan produces and exports large volumes of oil and gas, its economy is particularly dependent on the price of oil and gas. Economic growth slowed down in 2014 and 2015 approximately 2% and 1.1%, respectively and turned negative 3% in 2016. These factors aggravated the economic slowdown to shift from prosperity to recession economy with high inflation and unemployment and decreasing GDP.

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

**NON-BANKING CREDIT ORGANIZATION "VIATOR MICROCREDIT AZERBAIJAN"
LIMITED LIABILITY COMPANY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)**

(In Azerbaijani Manats)

Decreasing revenues from oil exports made the Central Bank of the Republic of Azerbaijan abandon its peg policy to the basket of US dollars and euros. In addition, CBAR devalued the Azerbaijani Manat by approximately 34% on February 21, 2015 and further on December 21, 2015 introduced a floating exchange rate that resulted in one-time devaluation of the AZN against US dollars and other major currencies by approximately 48%. The devaluation of Azerbaijani Manat continued in 2016 and resulted in 14% fall against US dollars and 9% fall against Euro by December 31, 2016. In January 2016, Standard & Poor's, international credit agency, downgraded long-term and short-term foreign and national currency sovereign rating to the speculative level. Starting from February, 2016 the Central Bank of the Republic of Azerbaijan has gradually increased refinancing rate from 3 to 15% and the minimum capital adequacy ratio was lowered from 12% to 10%. In addition, CBAR prevented speculations in the currency market by setting a limit on the currency exchange rate corridor within 4% of the official rate which was revoked in 2017 and introduced limits on the amount of foreign currency exchange.

The Azerbaijani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. While the Government has introduced a range of stabilization measures and plans to expedite reforms and support to banking system in response to current economic challenges. The Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Company's results and financial position in manner not currently determinable.

Amidst the ongoing crisis, the government of Azerbaijan shifted its oil-oriented economic policy, dominated for two decades, to the diversification of the economy. For that purpose, a "national strategic roadmap" was adopted to formulate a correct development strategy. The implementation of the "national strategic roadmap" was assigned to the newly formed "Center for Analysis of Economic Reforms and Communications," the aim of which is analyzing the effectiveness of conducted reforms and making new proposals. Another important structural reform was the establishment of the "Financial Market Supervisory Authority" to reinforce more strict, transparent and flexible control over the financial sector by improving the regulation and fighting against illegal financial activities.

Significant measures have been taken in custom services and taxation as well. As of 1 August, 2016, new regulations to ensure more operative and transparent custom clearance (a "green corridor" and other access systems) were implemented. The new simplified procedures will stimulate imports and will provide favorable conditions for business and external trade. As a continuation of reforms in customs, the reception of e-declarations to avoid the "official-citizen contact" is being carried out. In order to amend the existing tax system, the decree approving the "Directions of Reforms in Taxation for 2016" was signed. The presidential decree requires the Ministry of Taxes to ensure that on-site and off-tax audits are performed within short periods of time and extend the coverage of electronic tax audits to limit face-to-face contacts with taxpayers. Another important amendment on monopolistic actions was made to the Criminal Code. Besides, the latest changes in December 2016 to Taxes Code there will be applied "transfer pricing" against artificially exaggerated expenses and "voluntary tax disclosure" which highly practicable in greatest economies. Furthermore, in order to prevent additional exposure of financial sanctions by tax authority because of wrongly calculated tax liability, the mechanism of "determination of tax liability in advance" will be activated. Along with them, implementation of electronic invoices will play an important role in prevention of tax evasion and will impact on positively on tax system optimization.

Over the long term, Azerbaijan will benefit from production from the new gas fields, which is expected to come online in 2018.

**NON-BANKING CREDIT ORGANIZATION "VIATOR MICROCREDIT AZERBAIJAN"
LIMITED LIABILITY COMPANY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)**

(In Azerbaijani Manats)

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Going concern

These financial statements have been prepared on the assumption that the Company is a going concern and will continue in operation for the foreseeable future.

During last year's there was significant change of Azerbaijani Manat ("AZN") against USD, adversely affected the customer's ability to service the loans denominated in US dollars. The Company experienced significant difficulties in collecting the loans issued to these customers and number of non-performing loans increased as a result. On the other hand, the Company's significant part of the borrowings was denominated in foreign currencies, which were significantly increased in AZN equivalent as a result of devaluation. These factors together with the slowdowns in the economy caused to the serious liquidity problems for the Company, as, the mismatch between the projected cash inflows from lending activities and cash outflows to the lenders in the short run resulted in breach of covenants as stipulated in borrowing agreements. The management of the Company was able to negotiate the terms of borrowing agreements with lenders, and on August 2016 the lenders and the Company signed inter-creditor agreement on standstill and restructuring of repayment terms. The management believes that short-term liquidity problems will not affect the Company's ability to continue as a going concern, as no creditor will take any enforcement action with respect to any debt from the date of this agreement; therefore the financial statements do not include any adjustments that might result from the situation described above.

Accordingly, the Management prepared these financial statements on a going concern basis. In making this judgment management considered the Company's business plan, financial position, current and future plans, profitability of future operations and access to financial resources, and analyzed the impact of the recent financial crisis on future operations of the Company.

Other basis of presentation criteria

These financial statements are presented in Azerbaijani Manats ("AZN"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except measurement at a fair value of certain financial instruments and measurement of buildings at revalued amounts according to IFRS.

The Company maintains its accounting records in accordance with the laws of the Republic of Azerbaijan. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

The principal accounting policies are set out below:

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method.

**NON-BANKING CREDIT ORGANIZATION "VIATOR MICROCREDIT AZERBAIJAN"
LIMITED LIABILITY COMPANY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)**

(In Azerbaijani Manats)

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) 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 (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit and loss accounts.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "loans and receivables" and "available-for-sale" (AFS) financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method.

Gains and losses are recognized in profit and loss accounts when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its

**NON-BANKING CREDIT ORGANIZATION "VIATOR MICROCREDIT AZERBAIJAN"
LIMITED LIABILITY COMPANY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)**

(In Azerbaijani Manats)

absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans granted by the Company are initially recognized at a fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of comprehensive income according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

**NON-BANKING CREDIT ORGANIZATION "VIATOR MICROCREDIT AZERBAIJAN"
LIMITED LIABILITY COMPANY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)**

(In Azerbaijani Manats)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Company has the intention and ability to hold it for the foreseeable future or until maturity;
- Other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Company has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit and loss accounts is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans to customers carried at amortized 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 reorganization;
- 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.

**NON-BANKING CREDIT ORGANIZATION "VIATOR MICROCREDIT AZERBAIJAN"
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)**

(In Azerbaijani Manats)

Assets that are individually assessed for impairment and for which an impairment loss is recognized 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 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 assets' 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 recognized 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 collateralized 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.

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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 recognized (such as improvement in the debtor's credit rating), the previously recognized 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.

Renegotiated loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Write-off of loans and advances

According to the policy of the Company loans and advances are written off against the allowance for impairment losses when deemed uncollectible.

De-recognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that

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had been recognized in other comprehensive income and accumulated in equity is recognized in profit and loss accounts.

On de-recognition of a financial asset other than in its entirety (for example when the Company retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit and loss accounts. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

FVTPL

Financial liabilities are classified as FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit and loss accounts. The net gain or loss recognized in profit and loss accounts incorporates any interest paid on the financial liability and is included in the "other income/(loss)" line item in the statement of comprehensive income.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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Borrowings

Borrowings are recorded when money are advanced to the Company by counterparty lenders. The non-derivative liability is carried at amortized cost. If the Company purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

De-recognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss accounts.

Offset of financial assets and liabilities

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

Property and equipment

Property and equipment, except buildings, are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings	2.5%
Vehicles	20.0%
Computers and equipment	33.0%
Furniture and fixtures	20.0%
Other assets	25.0%

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

At the end of each reporting period, the Company reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Buildings are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

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Market value of property is assessed using the market approach method which involves analysis of market sales prices for similar real estate property which was also equal to the fair value of building under IFRS 13.

Any revaluation increase arising on the revaluation of such buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the statement of comprehensive income. Revaluation surplus is transferred to retained earnings annually. The amount of the surplus is transferred is equal to the difference between depreciation charge based on the asset's original cost, and depreciation charge based on the revalued amount, adjusted for the tax effect relating to the surplus.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss accounts.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit and loss accounts.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit and loss accounts.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax expense.

The tax currently payable 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 by the end of the reporting period.

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 balance sheet liability method.

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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 goodwill or from the initial recognition (other than in a business combination) 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 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 income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

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

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the Republic of Azerbaijan state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the state social protection fund to employees.

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The Company does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan. In addition, the Company has no post-retirement benefits or other significant compensated benefits requiring accrual.

Contingencies

A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable. Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote.

Charter capital

Charter capital is the amount of capital contributed by the shareholder. The Company may increase or decrease its charter capital with approval of the shareholder granted in accordance with law. Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared.

Dividends that are declared after the reporting date are treated as a subsequent event under International Accounting Standard 10 "Events after the Reporting Date" ("IAS 10") and disclosed accordingly.

Foreign currency translation

The functional currency of the Company is the currency of the primary economic environment, in which it operates. The Company's functional currency is AZN.

Financial assets and liabilities denominated in foreign currencies are translated into AZN at the appropriate spot rates of exchange of the CBAR ruling at the end of reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in foreign exchange translation gain/(loss) account.

Rates of exchange

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

	December 31, 2017	December 31, 2016
USD/AZN	1.7001	1.7707
EUR/AZN	2.0307	1.8644

Critical accounting judgments and key sources of estimation uncertainty

The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or

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conditions. The following estimates and judgments are considered important to the portrayal of the Company's financial condition.

Allowance for impairment of loans to customers

The Company regularly reviews its loans to assess for impairment. The Company's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Company considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Company's estimated losses and actual losses would require the Company to record provisions which could have a material impact on its financial statements in future periods.

The Company uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Company estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Company uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Company is not in a position to predict what changes in conditions will take place in country and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

The amount of the allowance for impairment of loans to customers was AZN 4,502,915 and AZN 7,147,354 as at December 31, 2017 and 2016, respectively.

Recoverability of deferred tax assets

The carrying value of deferred tax assets amounted to AZN 122,846 and AZN 186,851 as at December 31, 2017 and 2016, respectively.

The management of the Company is confident that the carrying amount of deferred tax asset will be fully realized in the future.

Useful life of property and equipment

The Company assesses the remaining useful lives of items of property and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property and equipment and on depreciation recognized in profit or loss.

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Current taxes

Azerbaijani tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of management. As a result, tax authorities may challenge transactions and the Company may be assessed additional taxes, penalties and interest, which can be significant. Periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

3. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Interpretations were in issue but not yet effective.

Annual Improvements to IFRS Standards 2014–2016 Cycle contains amendments to three International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project.

Standard	Subject of amendment
IFRS 1 "First-time Adoption of International Financial Reporting Standards"	Deletion of short-term exemptions for the first-time adopters: The amendments delete the short-term exemptions in IFRS 1 that relate to IFRS 7, IAS 19, IFRS 12 and IAS 27
IFRS 12 "Disclosure of Interests in Other Entities"	Clarification of the scope of the Standard: IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified as held for sale. The amendment clarifies that this is the only concession from disclosure requirements of IFRS 12 for such interests.
IAS 28 "Investments in Associates and Joint Ventures"	Measuring an associate or joint venture at fair value: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The amendments to IFRS 1 and IAS 28 are effective for annual periods begin on or after January 1 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017.

The IASB and FASB have issued their joint revenue recognition standard, IFRS 15 "Revenue from Contracts with Customers", which replaces all existing IFRS and US GAAP revenue requirements. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after January 1, 2018. Earlier application is permitted.

Amendments to IAS 40 "Transfers of Investment Property" are intended to clarify that an entity can only reclassify a property to/from investment property when, and only when, there is evidence that a change in the use of the property occurred. The amendments are effective for periods beginning on or after January 1, 2018. Earlier application is permitted. An entity applies the amendments to changes in

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use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is also permitted if that is possible without the use of hindsight.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The interpretation applies to annual reporting periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 9 "Financial Instruments" issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition.

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods;
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit and loss accounts. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit and loss accounts. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit and loss accounts was recognized in profit and loss accounts.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Amendments to IFRS 2 "Share-Based Payment" – The IASB have published final amendments to IFRS 2 "Share-based Payment" that clarify the classification and measurement of share-based payment transactions. Classification and Measurement of Share-based Payment Transactions contains the following clarifications and amendments:

Accounting for cash-settled share-based payment transactions that include a performance condition

Until issue of these amendments, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that

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introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

Classification of share-based payment transactions with net settlement features

The IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

Accounting for modifications of share-based payment transactions from cash-settled to equity-settled

Until issue of these amendments, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognized in respect of the cash-settled share-based payment is derecognized and the equity-settled share-based payment is recognized at the modification date fair value to the extent services have been rendered up to the modification date;
- Any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately.

The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 16 "Leases", which specifies how and 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.

IFRS 16 was issued in January 13, 2016 and applies to an annual reporting period beginning on or after January 1, 2019.

The Management is considering the implications of these standards, their impact on the financial statements and the timing of its adoption by the Company.

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4. STAFF COSTS AND RELATED CONTRIBUTIONS

Staff costs and related contributions comprise:

	Year ended December 31, 2017	Year ended December 31, 2016
Wages and salaries	797,971	928,492
Allowances, incentives and other benefits	100,142	83,655
Compulsory social security obligations	181,351	228,630
Total staff costs and related contributions	1,079,464	1,240,777

5. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprise:

	Year ended December 31, 2017	Year ended December 31, 2016
Security expenses	40,626	71,373
Bank commission	41,990	61,062
Rent expenses	35,372	56,655
Taxes other than income tax expense	24,926	53,645
Office supplies	43,946	48,616
Depreciation	86,375	40,681
Legal and court fees	67,690	40,258
Business trip expenses	19,952	33,936
Professional services and fees	20,675	30,956
Repair and maintenance	16,075	19,882
Transportation expenses	105	18,439
Utilities	26,525	15,675
Training expenses	1,622	9,822
Membership fees	25,760	9,456
Communication expenses	15,978	7,609
Institutional development costs	6,277	7,596
Insurance expenses	18,413	3,917
Others	40,715	14,790
Total general and administrative expenses	533,022	544,368

6. INCOME TAXES

The Company measures and records its current income tax payable and its tax bases related to assets and liabilities in accordance with the statutory tax regulations of the Republic of Azerbaijan where the Company operates, which differ from IFRS.

The Company is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

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Temporary differences as at December 31, 2017 and 2016 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by taxation bases' differences for certain assets and liabilities.

Tax legislation of the Republic of Azerbaijan in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Company may be assessed additional taxes, penalties and interest which could be material for these financial statements.

	December 31, 2017	December 31, 2016
Deductible temporary differences:		
Loans to customers	3,496,344	7,014,336
Other liabilities	-	37,734
Other assets	76,520	1,794
Total deductible temporary differences	3,572,864	7,053,864
Taxable temporary differences:		
Property and equipment	(54,444)	(112,017)
Borrowings	(7,334)	(67,520)
Total taxable temporary differences	(61,778)	(179,537)
Net deductible temporary differences	3,511,086	6,874,327
Deferred tax asset at the statutory tax rate	702,217	1,374,865
Deferred tax asset not recognized	(579,371)	(1,188,014)
Net deferred tax asset	122,846	186,851

The effective tax rate reconciliation is as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Loss before income tax	(1,257,746)	(2,283,983)
Income tax benefit at the statutory tax rate 20%	251,549	456,797
Tax effect of permanent differences	-	(10,388)
Change in deferred tax asset not recognized	(326,671)	(536,780)
Income tax expense	(75,122)	(90,371)
Current income tax expense	(11,117)	(134,870)
Change in the deferred tax assets	(64,005)	44,499
Income tax expense	(75,122)	(90,371)

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	December 31, 2017	December 31, 2016
Deferred income tax asset		
Beginning of the period	186,851	142,352
Change in deferred income tax balances recognized in profit and loss accounts	(64,005)	44,499
Change in the deferred income tax recognized in other components of comprehensive income		
End of the period	122,846	186,851

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	December 31, 2017	December 31, 2016
Cash on hand	2,851	4,428
Balances in bank accounts	72,875	337,555
Total cash and cash equivalents	75,726	341,983

8. LOANS TO CUSTOMERS

Loans to customers are issued primarily to customers located within the Republic of Azerbaijan.

	December 31, 2017	December 31, 2016
Loans to customers	8,907,003	15,066,858
Less: Allowance for loan impairment	(4,502,915)	(7,147,354)
Total loans to customers	4,404,088	7,919,504

Movement in the allowance for impairment of loans to customers is as follows:

	December 31, 2017	December 31, 2016
Provision at the beginning of the year	7,147,354	3,719,400
Additional provisions recognized	1,189,843	3,444,909
Write-off of loans	(3,834,282)	(16,955)
Provision at the end of year	4,502,915	7,147,354

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Customers operate in the following economic sectors:

	December 31, 2017	%	December 31, 2016	%
Loans to customers – agriculture	1,911,953	19	3,295,849	42
Loans to customers – trade	808,341	38	2,559,552	32
Loans to customers – others	1,683,794	43	2,064,103	26
Total loans to customers	4,404,088	100	7,919,504	100

Information about collateral at December 31, 2017 is as follows:

	Loans to customers - agriculture	Loans to customers - trade	Loans to customers - others	December 31, 2017 Total
Loans collateralized by:				
- jewellery	577,820	439,796	644,181	1,661,797
- personal guarantee	1,334,133	368,545	1,039,613	2,742,291
Total loans to customers	1,911,953	808,341	1,683,794	4,404,088

Information about collateral at December 31, 2016 is as follows:

	Loans to customers - agriculture	Loans to customers - trade	Loans to customers - others	December 31, 2016 Total
Loans				
- jewellery	1,990,228	1,543,645	1,242,160	4,776,033
- personal	1,305,621	1,015,907	821,943	3,143,471
Total loans to customers	3,295,849	2,559,552	2,064,103	7,919,504

Analysis by credit quality of loans outstanding as at December 31, 2017 is as follows:

	Loans to customers - agriculture	Loans to customers - trade	Loans to customers - others	December 31, 2017 Total
Collectively assessed				
Not past due	852,963	509,924	979,918	2,342,804
Overdue:				
Less than 1 month overdue	14,824	49	7,474	22,347
1 to 3 months overdue	1,780	652	5,610	8,043
3 to 6 months overdue	11,724	2,446	13,070	27,240
6 to 12 months overdue	53,353	10,714	29,329	93,396
Over 12 months overdue	2,913,562	1,140,107	2,359,504	6,413,173
Total gross collectively assessed loans	3,848,206	1,663,892	3,394,905	8,907,003

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	Loans to customers - agriculture	Loans to customers - trade	Loans to customers - other	December 31, 2017 Total
Less: provision for loan impairment	<u>(1,936,253)</u>	<u>(855,554)</u>	<u>(1,711,108)</u>	<u>(4,502,915)</u>
Total loans to customers	<u>1,911,953</u>	<u>808,338</u>	<u>1,683,797</u>	<u>4,404,088</u>

Analysis by credit quality of loans outstanding as at December 31, 2016 is as follows:

	Loans to customers - agriculture	Loans to customers - trade	Loans to customers - other	December 31, 2016 Total
Collectively assessed				
Not past due	1,360,334	1,160,834	958,813	3,479,981
Overdue:				
Less than 1 month overdue	91,386	49,440	65,732	206,558
1 to 3 months overdue	83,253	55,031	50,639	188,923
3 to 6 months overdue	136,848	103,137	88,761	328,746
6 to 12 months overdue	1,021,000	934,250	581,058	2,536,308
Over 12 months overdue	<u>3,648,327</u>	<u>2,720,597</u>	<u>1,957,418</u>	<u>8,326,342</u>
Total gross collectively assessed loans	<u>6,341,148</u>	<u>5,023,289</u>	<u>3,702,421</u>	<u>15,066,858</u>

	Loans to customers - agriculture	Loans to customers - trade	Loans to customers - other	December 31, 2016 Total
Less: provision for loan impairment	<u>(3,045,299)</u>	<u>(2,463,737)</u>	<u>(1,638,318)</u>	<u>(7,147,354)</u>
Total loans to customers	<u>3,295,849</u>	<u>2,559,552</u>	<u>2,064,103</u>	<u>7,919,504</u>

As at December 31, 2017 and 2016 all loans (100% of total loans to customers) were granted to individuals operating in the Republic of Azerbaijan, which represents an absolute geographical concentration in one region.

As at December 31, 2017 and 2016, there was no aggregate loan per borrower which individually exceeded 1% of total balance of loans to customers. The Company mainly lends micro and small credits to individuals and individual entrepreneurs.

Included in loans to customers AZN 323,778 and AZN 1,299,003 as at December 31, 2017 and 2016, respectively, represent accrued interest receivable.

As at December 31, 2017 and 2016, a maximum credit risk exposure on loans to customers amounted to AZN 4,404,088 and AZN 7,919,504, respectively.

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9. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Land and buildings	Vehicles	Computers and equipment	Furniture and fixtures	Other assets	Total
At revalued/initial cost						
January 1, 2016	458,941	213,473	58,208	27,325	68,707	826,654
Revaluation	-	-	-	-	-	-
Additions	-	-	-	-	1,425	1,425
Disposals	-	(131,816)	(889)	(855)	(1,723)	(135,283)
December 31, 2016	458,941	81,657	57,319	26,470	68,409	692,796
Additions	70,800	-	5,063	265	10,322	86,450
Disposals	-	(11,907)	(13,557)	(1,309)	(11,050)	(37,823)
December 31, 2017	529,741	69,750	48,825	25,426	67,681	741,423
Accumulated depreciation						
January 1, 2016	-	175,685	53,434	23,376	50,760	303,255
Charge for the year	11,505	16,659	3,642	2,208	6,667	40,681
Eliminated on disposal	-	(130,871)	(889)	(806)	(1,357)	(133,923)
December 31, 2016	11,505	61,473	56,187	24,778	56,070	210,013
Charge for the year	62,264	9,455	6,197	1,814	6,645	86,375
Eliminated on disposal	-	(21,187)	(13,559)	(1,309)	(11,050)	(47,105)
December 31, 2017	73,769	49,741	48,825	25,283	51,665	249,283
Net book value						
December 31, 2017	455,972	20,009	-	143	16,016	492,140
December 31, 2016	447,436	20,184	1,132	1,692	12,339	482,783
January 1, 2016	458,941	37,788	4,774	3,949	17,947	523,399

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The Company's buildings are represented by premises which were valued by an independent firm of valuers as at December 31, 2016. The valuation, which was performed in accordance with IFRS 13 "Fair Value Measurement", was arrived at by reference to market evidence of transaction prices for similar properties.

As at December 31, 2017 and 2016, no property and equipment were pledged as a security for the borrowings.

Details of the Company's buildings and information about the fair value hierarchy as at December 31, 2017 and 2016 are as follows:

	December 31, 2017		December 31, 2016	
	Level 2	Fair value	Level 2	Fair value
Land and Buildings	<u>455,972</u>	<u>455,972</u>	<u>447,436</u>	<u>447,436</u>
Total	<u>455,972</u>	<u>455,972</u>	<u>447,436</u>	<u>447,436</u>

10. OTHER ASSETS

Other assets comprise:

	December 31, 2017	December 31, 2016
Other non-financial assets:		
Prepaid taxes	140,049	30,394
Other prepayments	<u>6,655</u>	<u>2,564</u>
Total other assets	<u>146,704</u>	<u>32,958</u>

11. BORROWINGS

Borrowings comprise:

	December 31, 2017	December 31, 2016
Borrowings from local institutions	94,783	352,679
Borrowings from foreign institutions	<u>4,455,864</u>	<u>6,565,265</u>
Total borrowings	<u>4,550,647</u>	<u>6,917,944</u>

Included in borrowings AZN 8,896 and AZN 19,876 as at December 31, 2017 and 2016, respectively represent accrued interest payable.

On August 5, 2016, the Company signed the inter-creditor agreement with lenders. In relation to this agreement no creditor will take any enforcement action with respect to any debt from the date of this agreement until all loans have fully been repaid to each creditor. Each creditor agrees to reduce the rate of interest payable in respect of its loan to 5% effective as of August 1, 2016. All borrowed funds had been converted to US dollars at the rate of exchange USD 1.00 = EUR 0.8948 and USD 1.00 = AZN 1.5851, as at August 1, 2016, respectively. The repayment schedules were rescheduled as well. During the restructuring period, the Borrower may obtain new debt or equity financing for its operations from domestic or international sources.

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12. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2017	December 31, 2016
Other financial liabilities:		
Accruals for unused vacations	5,324	18,558
Accrued expenses	10,000	19,176
	<u>15,324</u>	<u>37,734</u>
Total other liabilities	15,324	37,734

13. CHARTER CAPITAL

As at December 31, 2017 and 2016 charter capital consisted of 100 shares with par value of AZN 6,937.74 each. Viator AS (Kingdom of Norway) owns 100% shares of the Company.

14. COMMITMENTS AND CONTINGENCIES

Compliance with requirements of the CBAR

The Company has to comply with rules and requirements set by the CBAR in accordance with the Law on Non-Banking Credit Organizations and other normative acts. The Company was in compliance with the rules and requirements set by the CBAR as at December 31, 2017 and 2016.

Capital commitments

The Company had no material commitments for capital expenditures outstanding as at December 31, 2017 and 2016.

Legal proceedings

From time to time and in the normal course of business, claims against the Company may be received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation

Provisions of tax legislation of the Republic of Azerbaijan are sometimes inconsistent and may have more than one interpretation, which allows the tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities.

It should be noted that the tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of "unjustified tax benefit", "primary commercial goal of transaction" and the criteria of "commercial purpose (substance) of transaction".

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. It could

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also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Company is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

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.

Also according to the clarification of the Constitutional Court of the Republic of Azerbaijan, the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers have obstructed or hindered a tax inspection.

15. TRANSACTIONS WITH RELATED PARTIES

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Company had the following transactions outstanding as at December 31, 2017 and 2016 with related parties:

	*Normisjon	December 31, 2017 Viator AS	Key management personnel
Balances			
Loans to customers	-	-	3,039
Borrowings	168,350	-	-
Other liabilities	-	-	-
Transactions			
Interest income	-	-	974
Interest expense	13,277	-	-
Non-interest expense	-	-	198,154

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	*Normisjon	December 31, 2016 Viator AS	Key management personnel
Balances			
Loans to customers	-	-	21,389
Borrowings	265,541	-	-
Other liabilities	-	-	117
Transactions			
Interest income	-	-	1,790
Interest expense	24,633	-	-
Non-interest expense	-	-	193,907

*Normisjon Region East and Normisjon Nordland Eiendom AS are two separate legal entities and affiliated parties of Normisjon network.

16. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The Company is not subject to capital adequacy monitoring by any regulatory or supervisory body. The only requirement of the CBRA is a minimum amount of share capital of AZN 300,000.

The capital structure of the Company consists of share capital, retained earnings and revaluation surplus as disclosed in the statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, based on recommendations of the Board, the Company balances its overall capital structure through payment of dividends or new share issues.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value hierarchy

As at December 31, 2017 and 2016 the Company had no financial instruments measured at fair value.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized:

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		Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2017	75,726	-	-	75,726
Loans to customers	December 31, 2017	-	-	4,404,088	4,404,088
Liabilities for which fair values are disclosed					
Borrowings	December 31, 2017	-	-	4,550,647	4,550,647
Other financial liabilities	December 31, 2017	-	-	15,324	15,324

		Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2016	341,983	-	-	341,983
Loans to customers	December 31, 2016	-	-	7,919,504	7,919,504
Liabilities for which fair values are disclosed					
Borrowings	December 31, 2016	-	-	6,917,944	6,917,944
Other financial liabilities	December 31, 2016	-	-	37,734	37,734

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2017	Fair value 2017	Unrecognized gain/(loss) 2017	Carrying value 2016	Fair value 2016	Unrecognized gain/(loss) 2016
Financial assets						
Cash and cash equivalents	75,726	75,726	-	341,983	341,983	-
Loans to customers	4,404,088	4,404,088	-	7,919,504	7,919,504	-
Financial liabilities						
Borrowings	4,550,647	4,550,647	-	6,917,944	6,917,944	-
Other financial liabilities	15,324	15,324	-	37,734	37,734	-
Total unrecognized change in unrealized fair value			<u>-</u>			<u>-</u>

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There is not any difference between the carrying amounts and fair values of the Company's financial instruments as the interest rates are at a market rate and have not changed subsequent to the reporting period.

Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, without a specific maturity and variable rate financial instruments.

Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

18. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Company's banking business and is an essential element of the Company's operations. The main risks inherent to the Company's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Company recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Company has established a risk management framework, whose main purpose is to protect the Company from risk and allow it to achieve its performance objectives. Through the risk management framework, the Company manages the following risks:

Credit risk

The Company is exposed to credit risk which 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.

Maximum exposure

The Company maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral.

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	Maximum exposure	Collateralized by liquid assets	December 31, 2017 Net exposure after collateral pledged
Loans to customers	4,404,088	1,963,194	2,440,894

	Maximum exposure	Collateralized by liquid assets	December 31, 2016 Net exposure after collateral pledged
Loans to customers	7,919,504	4,776,033	3,143,471

Geographical concentration

The Management exercises control over the risk in the legislation and regulatory area and assesses its influence on the Company's activity. This approach allows the Company to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan. The geographical concentration of assets and liabilities is set out below:

	The Republic of Azerbaijan	OECD countries	December 31, 2017 Total
FINANCIAL ASSETS			
Cash and cash equivalents	75,726	-	75,726
Loans to customers	4,404,088	-	4,404,088
TOTAL FINANCIAL ASSETS	4,479,814	-	4,479,814
FINANCIAL LIABILITIES			
Borrowings	94,783	4,455,864	4,550,647
Other financial liabilities	15,324	-	15,324
TOTAL FINANCIAL LIABILITIES	110,107	4,455,864	4,565,971
NET POSITION	4,369,707	(4,455,864)	(86,157)
	The Republic of Azerbaijan	OECD countries	December 31, 2016 Total
FINANCIAL ASSETS			
Cash and cash equivalents	341,983	-	341,983
Loans to customers	7,919,504	-	7,919,504
TOTAL FINANCIAL ASSETS	8,261,487	-	8,261,487
FINANCIAL LIABILITIES			
Borrowings	352,679	6,565,265	6,917,944
Other financial liabilities	37,734	-	37,734
TOTAL FINANCIAL LIABILITIES	390,413	6,565,265	6,955,678
NET POSITION	7,871,074	(6,565,265)	1,305,809

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Liquidity risk

An analysis of the liquidity and interest rate risks is presented in the following table. The tables have been drawn up to detail:

	Weighted average effective interest rate	Up to 1 month	1 month to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2017 Total
FINANCIAL ASSETS							
Loans to customers	31.86%	1,825,707	711,491	1,009,095	857,795	-	4,404,088
Total interest bearing financial assets		1,825,707	711,491	1,009,095	857,795	-	4,404,088
Cash and cash equivalents		75,726	-	-	-	-	75,726
Total financial assets		1,901,433	711,491	1,009,095	857,795	-	4,479,814
FINANCIAL LIABILITIES							
Borrowings	2.55%	144,184	655,544	391,972	2,176,763	1,182,184	4,550,647
Total interest bearing financial liabilities		144,184	655,544	391,972	2,176,763	1,182,184	4,550,647
Other financial liabilities		15,324	-	-	-	-	15,324
Total financial liabilities		159,508	655,544	391,972	2,176,763	1,182,184	4,565,971
Liquidity gap		1,741,925	55,947	617,123	(1,318,968)	(1,182,184)	
Cumulative liquidity gap		1,741,925	1,797,872	2,414,995	1,096,027	(86,157)	
	Weighted average effective interest rate	Up to 1 month	1 month to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2016 Total
FINANCIAL ASSETS							
Loans to customers	30.54%	3,283,016	1,279,415	1,814,572	1,540,135	2,366	7,919,504
Total interest bearing financial assets		3,283,016	1,279,415	1,814,572	1,540,135	2,366	7,919,504
Cash and cash equivalents		341,983	-	-	-	-	341,983
Total financial assets		3,624,999	1,279,415	1,814,572	1,540,135	2,366	8,261,487
FINANCIAL LIABILITIES							
Borrowings	5.55%	219,190	996,566	595,880	3,309,139	1,797,169	6,917,944
Total interest bearing financial liabilities		219,190	996,566	595,880	3,309,139	1,797,169	6,917,944
Other financial liabilities		37,734	-	-	-	-	37,734
Total financial liabilities		256,924	996,566	595,880	3,309,139	1,797,169	6,955,678
Liquidity gap		3,368,075	282,849	1,218,692	(1,769,004)	(1,794,803)	
Cumulative liquidity gap		3,368,075	3,650,924	4,869,616	3,100,612	1,305,809	

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Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Company is exposed. The Company measures risk by overseeing and analyzing current fluctuations and changes in the financial markets and the economy as a whole.

Interest rate risk

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on loss before income tax:

	As at December 31, 2017		As at December 31, 2016	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Financial assets:				
Loans to customers	44,040	(44,040)	79,195	(79,195)
Financial liabilities:				
Borrowings	(45,506)	45,506	(69,179)	69,179
Net impact on loss before income tax	(1,466)	1,466	10,016	(10,016)

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 fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Company's exposure to foreign currency exchange rate risk is presented in the table below:

	AZN	USD	EUR	December 31, 2017 Total
FINANCIAL ASSETS				
Cash and cash equivalents	43,933	31,230	563	75,726
Loans to customers	3,512,068	892,020	-	4,404,088
TOTAL FINANCIAL ASSETS	3,556,001	923,250	563	4,479,814
FINANCIAL LIABILITIES				
Borrowings	94,783	4,455,864	-	4,550,647
Other financial liabilities	15,324	-	-	15,324
TOTAL FINANCIAL LIABILITIES	110,107	4,455,864	-	4,565,971
OPEN CURRENCY POSITION	3,445,894	(3,532,614)	563	(86,157)

The following table details the foreign currency exchange rate risk as at December 31, 2016:

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	AZN	USD	EUR	December 31, 2016 Total
FINANCIAL ASSETS				
Cash and cash equivalents	179,765	161,350	868	341,983
Loans to customers	4,928,153	2,991,351	-	7,919,504
TOTAL FINANCIAL ASSETS	5,107,918	3,152,701	868	8,261,487
FINANCIAL LIABILITIES				
Borrowings	352,679	6,565,265	-	6,917,944
Other financial liabilities	37,734	-	-	37,734
TOTAL FINANCIAL LIABILITIES	390,413	6,565,265	-	6,955,678
OPEN CURRENCY POSITION	4,717,505	(3,412,564)	868	1,305,809

Currency risk sensitivity

The following table details the Company's sensitivity to a 10% increase and decrease in the USD and EUR against AZN. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

	As at December 31, 2017		As at December 31, 2016	
	AZN/USD +10%	AZN/USD -10%	AZN/USD +10%	AZN/USD -10%
Impact on loss before tax	(353,261)	353,261	(341,256)	341,256

	As at December 31, 2017		As at December 31, 2016	
	AZN/EUR +10%	AZN/EUR -10%	AZN/EUR +10%	AZN/EUR -10%
Impact on loss before tax	56	(56)	87	(87)

Price risk

Price 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 price risks of its products which are subject to general and specific market fluctuations.

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors.

It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

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The sensitivity analysis does not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

19. EVENTS AFTER THE REPORTING PERIOD

No significant events have occurred after reporting period.