TBC Kredit LLC

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2017

CONTENTS

Independent Auditor's Report

To the Shareholders and Board of Directors of "TBC Kredit Limited Liability Company":

Our opinion

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

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan

27 April 2018

In thousands of Azerbaijani Manats	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	7	1,263	2,015
Loans and advances to customers	8	19,290	20,206
Intangible assets	9	83	116
Premises and equipment	9	159	228
Other financial assets	10	2,578	1,889
Other assets	11	584	466
Current income tax asset		254	-
Deferred income tax asset	19	1,115	1,273
TOTAL ASSETS		**25,326**	**26,193**
LIABILITIES			
Due to banks	12	2,337	2,022
Term borrowings	13	9,854	10,009
Eurobonds	14	8,563	7,109
Subordinated debt		-	3,552
Other financial liabilities		66	96
Current income tax liability		-	34
Other liabilities	15	238	291
TOTAL LIABILITIES		**21,058**	**23,113**
EQUITY			
Charter capital	16	8,453	8,453
Accumulated deficit		(4,185)	(5,373)
TOTAL EQUITY		**4,268**	**3,080**
TOTAL LIABILITIES AND EQUITY		**25,326**	**26,193**

Approved for issue and signed on behalf of the Board of Directors on 27 April 2018

Mr. Spartak Tetrashvili
Director

Mr. Chingiz Abdullayev
Chief Accountant

AZƏRBAYCAN RESPUBLİKASI BAKI ŞƏHƏRİ
bank olmayan kredit təşkilatı MMC
TBC KREDİT
non-banking credit organization LLC
BAKU, REPUBLIC OF AZERBAIJAN

In thousands of Azerbaijani Manats	Note	2017	2016
Interest income	17	5,564	8,299
Interest expense	17	(2,120)	(2,678)
Net interest income		**3,444**	**5,621**
Recovery of/(provision for) loan impairment	8	1,202	(9,364)
Net interest income/(negative interest margin) after provision for loan impairment		**4,646**	**(3,743)**
Fee and commission expense		(53)	(143)
Foreign exchange translation gains less losses		(72)	92
Other operating income		29	36
Administrative and other operating expenses	18	(2,981)	(3,328)
Profit/(loss) before tax		**1,569**	**(7,086)**
Income tax expense	19	(381)	(637)
PROFIT/(LOSS) FOR THE YEAR		**1,188**	**(7,723)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**1,188**	**(7,723)**

In thousands of Azerbaijani Manats	Charter Capital	Retained earnings/ (Accumulated deficit)	Total equity
Balance at 1 January 2016	**8,453**	**2,350**	**10,803**
Loss for the year	-	(7,723)	(7,723)
Total comprehensive loss for 2016	-	(7,723)	(7,723)
Balance at 31 December 2016	**8,453**	**(5,373)**	**3,080**
Profit for the year	-	1,188	1,188
Total comprehensive income for 2017	-	1,188	1,188
Balance at 31 December 2017	**8,453**	**(4,185)**	**4,268**

The notes set out on pages 5 to 41 form an integral part of these financial statements.

In thousands of Azerbaijani Manats	Note	2017	2016
Cash flows from operating activities			
Interest received		5,290	7,598
Interest paid		(2,090)	(3,157)
Fees and commission received		-	4
Fees and commissions paid		(53)	(101)
Other operating income received		29	33
Staff costs paid		(2,021)	(2,199)
Administrative and other operating expenses paid		(794)	(986)
Income tax paid		(511)	(544)
Cash flows (used in)/from operating activities before changes in operating assets and liabilities		**(150)**	**648**
Changes in operating assets and liabilities			
Net decrease in loans and advances to customers		1,750	14,497
Net change in other operating assets and liabilities		(863)	(1,940)
Net cash from operating activities		**737**	**13,205**
Cash flows from investing activities			
Acquisition of premises and equipment	9	(33)	(26)
Acquisition of intangible assets	9	(2)	(34)
Net cash used in investing activities		**(35)**	**(60)**
Cash flows from financing activities			
Proceeds from term borrowings		3,400	-
Repayment of term borrowings		(3,224)	(16,447)
Proceeds from resident banks		1,043	2,004
Repayment to resident banks		(731)	(1,620)
Proceeds from debt securities issued		1,833	6,314
Repayment of debt securities issued		-	(10,797)
Proceeds from subordinated debt		-	3,218
Repayment of subordinate debt		(3,400)	-
Net cash used in financing activities		**(1,079)**	**(17,328)**
Effect of exchange rate changes on the balance of cash and cash equivalents		**(375)**	**(207)**
Net decrease in cash and cash equivalents		**(752)**	**(4,390)**
Cash and cash equivalents at the beginning of the year	7	2,015	6,405
Cash and cash equivalents at the end of the year		**1,263**	**2,015**

The notes set out on pages 5 to 41 form an integral part of these financial statements.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for TBC Kredit LLC ("the Company").

The Company was incorporated and is domiciled in the Republic of Azerbaijan. The Company is a limited liability company and was set up in accordance with Azerbaijani regulations.

The Parent of the Company is Georgia based JSC TBC Bank who owned 75% of the Company's charter capital and whose major shareholders are International Finance Corporation, European Bank for Reconstruction and Development and TBC Holdings Ltd. The ultimate controlling party of the entity is JSC TBC Bank.

Another shareholder of the Company is Enclude LTD who owned the remaining 25% of the Company's charter capital.

Principal activity. The Company's principal business activity is commercial lending operations within the Republic of Azerbaijan. The Company was founded as a non-bank credit institution on 7 December 1999 as Shore Overseas Azerbaijan and re-registered on 7 April 2006 as SOA Kredit LLC, then on 28 July 2008 as TBC Kredit LLC. The Company operates under a restricted banking licence issued by the Central Bank of the Republic of Azerbaijan ("CBAR").

The Company has 5 (2016: 5) branches within the Republic of Azerbaijan. The Company had 92 employees at 31 December 2017(2016: 124 employees).

Registered address and place of business. The Company's registered address and principal place of business is:

71/77 28 May Street,
Baku, The Republic of Azerbaijan

Presentation currency. These financial statements are presented in thousands of Azerbaijani Manats ("AZN thousands"). The Azerbaijani Manat ("AZN") is the official currency of the Republic of Azerbaijan.

At 31 December 2017, the principal rate of exchange used for translating foreign currency monetary balances was USD 1 = AZN 1.7001, EUR 1 = AZN 2.0307, GEL 1= AZN 0.6514 (31 December 2016: USD 1 = AZN 1.7707, EUR 1 = AZN 1.8644, GEL 1 = AZN 0.6663).

2 Operating Environment of the Company

The Republic of Azerbaijan displays certain characteristics of an emerging market. Current and future growth and stability of the economy is largely dependent upon the effective implementation of economic, fiscal and monetary measures undertaken by government as well as crude oil prices and stability of Azerbaijani manat.

Following the negative impact of decline in oil prices and devaluations of national currency against major international currencies, which took place in 2015, operating environment remained highly uncertain.

In addressing these challenges, the government accelerated reforms in support of long term economic stability and sustainability. Furthermore, during 2017 the government continued tight monetary policy as well as allocated foreign currency resources which stabilized Azerbaijan manat.

In January 2018, Standard & Poor's, international credit rating agency, maintained Azerbaijan's sovereign credit rating at 'BB+', revising its outlook from negative to stable. At the same time, the agency affirmed the ratings on the long term foreign and local currency sovereign credit ratings of Azerbaijan at 'BB+/B'. The agency forecasts that Azerbaijan's economic growth will recover moderately but will still remain dependent on oil industry trends and public investments.

2 Operating Environment of the Company (Continued)

The Company's Management is monitoring these developments in the current environment and taking precautionary measures as it considers necessary in order to ensure the sustainability and development of the Company's business in the foreseeable future. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Foreign currency translation. The Company's functional and presentation currency is the national currency of the Republic of Azerbaijan, Azerbaijani Manats ("AZN").

Monetary assets and liabilities are translated into Company's functional currency at the official exchange rate of the CBAR at the respective period end dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into Company's functional currency at year-end official exchange rates of the CBAR are recognised in profit or loss for the year (as foreign exchange translation gains less losses).Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

The costs of minor repairs and day-to-day maintenance are expensed when incurred. The cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised as profit or loss for the year.

Depreciation. Depreciation of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Computers and communication equipment	4 to 5 years;
Furniture, fixtures and other	5 to 10 years;
Vehicles	4 to 5 years; and
Leasehold improvements	Shorter of useful life and the term of the underlying lease

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

3 Summary of Significant Accounting Policies (Continued)

Intangible assets. All of the Company's intangible assets have definite useful lives and primarily include acquired computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use the specific software.

All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 to 10 years.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value, or amortised cost as described below.

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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 25.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

3 Summary of Significant Accounting Policies (Continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term.

Held-to-maturity assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period.

Held-for-trading investments are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Company classifies securities into trading investments if it has an intention to sell them within a short period after purchase.

The Company may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Other financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Company's Board of Directors. Recognition and measurement of this category of financial assets is consistent with the accounting policy for trading investments.

All other financial assets are included in the *available-for-sale* category, which includes investment securities which the Company intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs.

Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Company commits to deliver a financial asset. All other purchases are recognised when the Company becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Derecognition of financial liabilities

An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Loans and advances to customers. Loans and advances to customers are recorded when the Company advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

3 Summary of Significant Accounting Policies (Continued)

- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Company obtains;
- the borrower considers bankruptcy or a financial reorganisation
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Company in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and Company's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Debt securities in issue. Debt securities in issue include domestic bonds and eurobonds issued by the Company. Debt securities are stated at amortised cost. If the Company purchases its own debt securities in issue, they are 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 arising from early retirement of debt.

3 Summary of Significant Accounting Policies (Continued)

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Term borrowings. Term borrowings include loans from non-resident banks and other financial institutions with fixed maturities and fixed or floating interest rates. Term borrowings are carried at amortised cost.

Due to banks. Amounts due to banks are recorded when money or other assets are advanced to the Company by resident counterparty financial institutions. The non-derivative liability is carried at amortised cost. If the Company purchases its own debt, the liability 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.

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available, against which the deductions can be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Company.

Uncertain tax positions. The Company's uncertain tax positions are reassessed by management at every period end date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the period end date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of reporting period.

3 Summary of Significant Accounting Policies (Continued)

Income and expense recognition. Interest income and expense are recorded in profit or loss for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the Company relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Company to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Company will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Company does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Staff costs and related contributions. Wages, salaries, contributions to the Republic of Azerbaijan state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Company regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers of a Company, or national or local economic conditions that correlate with defaults on assets of the Company.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

A 10% increase or decrease in actual loss experience compared to the loss estimates used for collectively assessed loans would result in an increase or decrease in loan impairment losses of AZN 401 thousand (2016: AZN 401 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans.

A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of AZN 430 thousand (2016: AZN 681 thousand), respectively.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

Useful lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical or commercial obsolescence arising from changes in market conditions.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Company from 1 January 2017, but did not have any material impact on the Company:

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 6.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Company has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVTPL).

6 New Accounting Pronouncements (Continued)

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

In January 2018, management has engaged an internationally recognised audit firm to assist the Company in implementing IFRS 9, including putting relevant systems, processes and controls in place. In June 2018, the Company expects to finalise its analysis of the Company's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that existed at that date to assess the likely impact on its financial statements from the adoption of the new standard on 1 January 2018.

The new standard is expected to impact measurement of financial assets, including an increase in loan loss provision, and financial liabilities and also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

6 New Accounting Pronouncements (Continued)

In accordance with the transition provisions in IFRS 15 the Company has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the consolidated financial statements for the year-ending 31 December 2018 which will be the first year when the Company will apply IFRS 15.

Management is currently reviewing the terms of contracts with customers, particularly, with the view of potential existence of multiple-element arrangements that obligate the Company to provide more than one product or service. Performance obligations in the contracts are in review process as well in order to determine whether a promise by the Company to transfer the goods and services specified in the contract to the customer is distinct and separately identifiable. Moreover, the management is currently assessing the passage of control from Company to the customer so as to determine if the performance obligation is satisfied over time or at a point in time.

Based on the preliminary analysis of the Company's revenue streams for the year ended 31 December 2017, individual contracts' terms and on the basis of the facts and circumstances that exist at that date, in view of simplified transition method application, the management of the Company is not expecting a significant impact on its financial statements from the adoption of the new standard on 1 January 2018. Although assessment has not been fully competed as of financial statements issuance date.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Company is currently assessing the impact of the interpretation on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment.

6 New Accounting Pronouncements (Continued)

The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company is currently assessing the impact of the interpretation on its financial statements.

The following other new pronouncements are not expected to have any material impact on the Company when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

7 Cash and Cash Equivalents

In thousands of Azerbaijani Manats	**2017**	**2016**
Cash on hand	3	10
Correspondent accounts and overnight placements with banks	1,260	2,005
Total cash and cash equivalents	**1,263**	**2,015**

Credit quality based on Fitch's rating of correspondent accounts and overnight placements with banks is as follows:

In thousands of Azerbaijani Manats	**2017**	**2016**
Neither past due nor impaired		
- BB	387	-
- BB-	-	1,593
- B+	225	-
- B	-	88
- CCC	215	-
- Unrated	433	324
Total cash and cash equivalents, excluding cash on hand	**1,260**	**2,005**

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 21. The Company also had AZN 2,444 thousand cash balance blocked in correspondent account in Pasha Bank at 31 December 2017. Refer to Note 10.

8 Loans and Advances to Customers

In thousands of Azerbaijani Manats	2017	2016
Corporate loans	3,409	-
Loans to individuals – consumer	10,078	10,130
Loans to individuals – trade	6,152	8,858
Loans to individuals – service&manufacturing	1,897	3,068
Loans to individuals – agriculture	256	774
Loans to individuals – mortgage	3,971	5,800
Loans to individuals – other	1,833	2,405
Less: Provision for loan impairment	(8,306)	(10,829)
Total loans and advances to customers	**19,290**	**20,206**

The movements in the provision for loan impairment during 2017 are as follows:

In thousands of Azerbaijani Manats	Corporate loans	Mortgage	Trade	Consumer	Service& Manufacturing	Other	Total
Provision for loan impairment at 1 January 2017	**-**	**2,367**	**4,155**	**1,743**	**1,438**	**1,126**	**10,829**
(Recovery of)/provision for impairment during the year	68	(520)	52	680	(1,238)	(244)	(1,202)
Amounts written off during the year as uncollectible	-	(6)	(523)	(1,271)	(292)	(149)	(2,241)
Recovery of amounts previously written off as uncollectible	-	7	396	232	184	101	920
Provision for loan impairment at 31 December 2017	**68**	**1,848**	**4,080**	**1,384**	**92**	**834**	**8,306**

The movements in the provision for loan impairment during 2016 are as follows:

In thousands of Azerbaijani Manats	Mortgage	Trade	Consumer	Service& Manufacturing	Other	Total
Provision for loan impairment at 1 January 2016	**1,037**	**2,650**	**1,121**	**855**	**437**	**6,100**
(Recovery of)/provision for impairment during the year	1,562	4,158	1,090	1,323	1,231	9,364
Amounts written off during the year as uncollectible	(234)	(2,653)	(518)	(740)	(873)	(5,018)
Recovery of amounts previously written off as uncollectible	2		50		331	383
Provision for loan impairment at 31 December 2016	**2,367**	**4,155**	**1,743**	**1,438**	**1,126**	**10,829**

8 Loans and Advances to Customers (Continued)

The economic sector risk concentrations within the customer loan portfolio are as follows:

In thousands of Azerbaijani Manats	2017 Amount	2017 %	2016 Amount	2016 %
Corporate loans	3,409	12%	-	-
Individuals				
- consumer loans	10,078	37%	10,130	33%
- trade loans	6,152	22%	8,858	29%
- service&manufacturing	1,897	7%	3,068	10%
- agriculture loans	256	1%	774	2%
- mortgage loans	3,971	14%	5,800	18%
- other loans	1,833	7%	2,405	8%
Total individuals	**27,596**	**100%**	**31,035**	**100%**
Total loans and advances to customers (before impairment)	**27,596**	**100%**	**31,035**	**100%**

At 31 December 2017, the Company had 50 borrowers with an aggregated loan amount of AZN 9,569 thousand or 35% of the gross loan portfolio (31 December 2016: 50 borrowers with an aggregate loan amount of AZN 8,270 thousand or 27% of the gross loan portfolio).

At 31 December 2017, the corporate loan amount advanced to TBC Leasing, which is another subsidiary entity of JSC TBC Bank, was AZN 3,409 thousand or 12% of the gross loan portfolio and 80% of the net assets of the Company. The Company did not have any such risk concentration at 31 December 2016.

Information about collateral at 31 December 2017 is as follows:

In thousands of Azerbaijani Manats	Corporate loans	Trade	Agriculture	Mortgage	Service& Manufacturing	Consumer	Other	Total
Unsecured Loans	-	522	95	12	154	9,090	230	10,103
- residential real estate	-	5,612	161	3,959	1,739	862	1,537	13,870
- movable property	-	18	-	-	4	126	66	214
- lease portfolio and bank accounts	3,409	-	-	-	-	-	-	3,409
Total loans and advances to customers	**3,409**	**6,152**	**256**	**3,971**	**1,897**	**10,078**	**1,833**	**27,596**

8 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2016 is as follows:

In thousands of Azerbaijani Manats	Trade	Agriculture	Mortgage	Service& Manufacturing	Consumer	Other	Total
Unsecured loans	284	5	9	83	8,964	194	9,539
Loans collateralised							
- residential real estate	7,505	174	5,722	2,673	783	1,788	18,645
- movable property	1,069	595	69	312	383	423	2,851
Total loans and advances to customers	**8,858**	**774**	**5,800**	**3,068**	**10,130**	**2,405**	**31,035**

Movable properties mainly include equipment, cars, inventory and personal belongings of customers. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

8 Loans and Advances to Customers (Continued)

The analysis by credit quality of loans outstanding at 31 December 2017 is as follows:

In thousands of Azerbaijani Manats	Corporate loans	Trade	Agriculture	Mortgage loans	Service& Manufacturing	Consumer	Other	Total
Neither past due nor impaired								
- Large borrowers with credit history over two years	-	236	82	677	67	53	144	1,259
- Large new borrowers	3,409	85	-	242	24	54	69	3,883
- Loans to medium size borrowers	-	29	-	63	8	171	64	335
- Loans to small size borrowers	-	413	31	233	144	8,611	192	9,624
Total neither past due nor impaired	**3,409**	**763**	**113**	**1,215**	**243**	**8,889**	**469**	**15,101**
Past due but not impaired								
- less than 30 days overdue	-	282	3	12	79	88	9	473
- 30 to 90 days overdue	-	2	-	-	1	34	3	40
Total past due but not impaired	**-**	**284**	**3**	**12**	**80**	**122**	**12**	**513**
Loans individually determined to be impaired (gross)								
- less than 30 days overdue	-	810	52	931	237	280	247	2,557
- 30 to 90 days overdue	-	72	1	14	20	23	-	130
- 91 to 180 days overdue	-	681	6	234	192	17	22	1,152
- 181 to 360 days overdue	-	741	26	46	213	88	247	1,361
- over 360 days overdue	-	2,801	55	1,519	912	659	836	6,782
Total individually impaired loans (gross)	**-**	**5,105**	**140**	**2,744**	**1,574**	**1,067**	**1,352**	**11,982**
Gross carrying value of loans	**3,409**	**6,152**	**256**	**3,971**	**1,897**	**10,078**	**1,833**	**27,596**
Less impairment provisions	**(68)**	**(3,954)**	**(126)**	**(1,848)**	**(92)**	**(1,384)**	**(834)**	**(8,306)**
Total loans and advances to customers	**3,341**	**2,198**	**130**	**2,123**	**1,805**	**8,694**	**999**	**19,290**

8 Loans and Advances to Customers (Continued)

The analysis by credit quality of loans outstanding at 31 December 2016 is as follows:

In thousands of Azerbaijani Manats	Trade	Agriculture	Mortgage loans	Service& Manufacturing	Consumer	Other	Total
Neither past due nor impaired							
- Large borrowers with credit history over two years	1,663	-	1,144	469	10	248	3,534
- Large new borrowers	398	-	233	112	15	20	778
- Loans to medium size borrowers	330	94	572	93	282	202	1,573
- Loans to small size borrowers	1,168	348	765	337	7,930	672	11,220
Total neither past due nor impaired	**3,559**	**442**	**2,714**	**1,011**	**8,237**	**1,142**	**17,105**
Past due but not impaired							
- less than 30 days overdue	392	22	131	111	256	94	1,006
- 30 to 90 days overdue	237	15	239	69	133	17	710
Total past due but not impaired	**629**	**37**	**370**	**180**	**389**	**111**	**1,716**
Loans individually determined to be impaired (gross)							
- less than 30 days overdue	425	4	423	120	24	59	1,055
- 30 to 90 days overdue	753	44	162	213	27	219	1,418
- 91 to 180 days overdue	383	54	1,104	108	133	98	1,880
- 181 to 360 days overdue	1,384	146	808	768	909	493	4,508
- over 360 days overdue	1,725	47	219	668	411	283	3,353
Total individually impaired loans (gross)	**4,670**	**295**	**2,716**	**1,877**	**1,504**	**1,152**	**12,214**
Gross carrying value of loans	**8,858**	**774**	**5,800**	**3,068**	**10,130**	**2,405**	**31,035**
Less impairment provisions	**(3,889)**	**(266)**	**(2,367)**	**(1,438)**	**(1,743)**	**(1,126)**	**(10,829)**
Total loans and advances to customers	**4,969**	**508**	**3,433**	**1,630**	**8,387**	**1,279**	**20,206**

The Company applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the period end date. The Company's policy is to classify each loan as 'neither past due nor impaired' until a specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology. Provision for loan impairment includes both collective and individual loan provisions.

The primary factors that the Company considers whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Company presents above an ageing analysis of loans that are individually determined to be impaired.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

8 Loans and Advances to Customers (Continued)

The effect of collateral at 31 December 2017:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Azerbaijani Manats	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	3,409	3,409	-	-
Loans to individuals – trade	2,645	8,562	3,507	2,110
Loans to individuals – mortgage	2,467	5,992	1,504	1,034
Loans to individuals – service & manufacturing	780	2,566	1,117	680
Loans to individuals – agriculture	161	177	95	-
Loans to individuals – consumer	566	2,880	9,512	292
Loans to individuals – other	763	2,089	1,070	578
Total	**10,791**	**25,675**	**16,805**	**4,694**

The effect of collateral at 31 December 2016:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Azerbaijani Manats	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Loans to individuals – trade	7,937	35,388	1,180	538
Loans to individuals – mortgage	4,537	11,238	1,262	981
Loans to individuals – service & manufacturing	2,455	10,388	354	304
Loans to individuals – agriculture	436	1,744	338	142
Loans to individuals – consumer	980	3,121	9,149	123
Loans to individuals – other	1,549	4,771	858	409
Total	**17,894**	**66,650**	**13,141**	**2,497**

The carrying value of each class of loans and advances to customers approximates fair value at 31 December 2017 and 31 December 2016.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 21. The information on related party balances is disclosed in Note 27.

As at 31 December 2017 and 2016, total value of loans and advances to customers are also collateral for the Company's borrowings.

9 Premises, Equipment and Intangible Assets

In thousands of Azerbaijani Manats	Note	Leasehold improvements	Office and computer equipment	Furniture	Vehicles	Total premises and equipment	Computer software and licences	Total
Cost at 1 January 2016		446	516	168	71	1,201	164	1,365
Accumulated depreciation and amortisation		(432)	(355)	(93)	(25)	(905)	(44)	(949)
Carrying amount at 1 January 2016		**14**	**161**	**75**	**46**	**296**	**120**	**416**
Additions		-	20	6	-	26	34	60
Disposals		-	(114)	(14)	-	(128)	-	(128)
Accumulated depreciation on disposed items		-	109	10	-	119	-	119
Depreciation and amortisation charge	18	(14)	(44)	(14)	(13)	(85)	(38)	(123)
Carrying amount at 31 December 2016		**-**	**132**	**63**	**33**	**228**	**116**	**344**
Cost at 31 December 2016		446	422	160	71	1,099	198	1,297
Accumulated depreciation and amortisation		(446)	(290)	(97)	(38)	(871)	(82)	(953)
Carrying amount at 31 December 2016		**-**	**132**	**63**	**33**	**228**	**116**	**344**
Additions		-	18	1	14	33	2	35
Disposals		-	(107)	(33)	(27)	(167)	-	(167)
Accumulated depreciation on disposed items		-	97	27	10	134	-	134
Depreciation and amortisation charge	18	-	(47)	(14)	(8)	(69)	(35)	(104)
Carrying amount at 31 December 2017		**-**	**93**	**44**	**22**	**159**	**83**	**242**
Cost at 31 December 2017		446	333	128	58	965	200	1,165
Accumulated depreciation and amortisation		(446)	(240)	(84)	(36)	(806)	(117)	(923)
Carrying amount at 31 December 2017		**-**	**93**	**44**	**22**	**159**	**83**	**242**

Intangible assets at 31 December 2017 represent mainly electronic data processing software and licences used for the purposes of performing banking business.

10 Other Financial Assets

In thousands of Azerbaijani Manats	2017	2016
Restricted cash	2,444	1,771
Other financial assets	134	118
Total other financial assets	**2,578**	**1,889**

Restricted cash represents balance on correspondent account placed by the Company in Pasha Bank OJSC in exchange for the loan obtained from Pasha Bank OJSC. The Company does not have the right to use these funds for the purposes of funding its own activities until the maturity date of December 27 2018.

11 Other Assets

In thousands of Azerbaijani Manats	2017	2016
Other current assets:		
Prepaid expenditures	84	47
Total other current assets	**84**	**47**
Other non-current assets:		
Prepayments for fixed assets	1	19
Repossessed collateral	499	400
Total other non-current assets	**500**	**419**
Total other assets	**584**	**466**

12 Due to Banks

In thousands of Azerbaijani Manats	2017	2016
Loans from Pasha Bank	2,337	2,022
Total due to banks	**2,337**	**2,022**

At 31 December 2017, total amount due to banks represents loans borrowed from Pasha Bank OJSC. Loans consist of AZN 1,600 thousand obtained in December 2016 which matures in December 2018 with an annual interest rate of 13% (decreased from 18% after 18 August 2017), a loan of AZN 400 thousand which matures in September 2018 with an annual interest of 12% and a loan of AZN 333 thousand which matures in October 2018 with an annual interest of 12% (2016: AZN 1,600 thousand and AZN 432 thousand with annual interest rate of 18% and 15% respectively).

These loans include principal amount, accrued interest payable and deferred loan origination fees at 31 December 2017 and 2016.

13 Term Borrowings

In thousands of Azerbaijani Manats	2017	2016
Funds borrowed from OPIC	6,378	10,009
Funds borrowed from JSC "TBC Bank"	3,476	-
Total term borrowings	**9,854**	**10,009**

These borrowings include principal amount, accrued interest payable and deferred loan origination fees as at 31 December 2017 and 2016.

In 2010, the Company signed a loan agreement with OPIC in the amount of USD 12,000 thousand (AZN 9,641 thousand) with a maturity date on 15 June 2021. At 31 December 2017, the total outstanding balance under these facilities was AZN 6,378 thousand (2016: AZN 10,009 thousand). The Company pledged the loans of AZN 7,544 thousand as collateral for its borrowings taken from OPIC. The Company is obliged to comply with certain financial covenants stipulated by the aforementioned loan agreements. The Company was not in breach of any covenants as at 31 December 2017.

In 2016, the Company signed a loan agreement with TBC Bank, the parent company, to obtain subordinated loan in amount of USD 2,000 thousand (AZN 3,541 thousand, classified as subordinated debt) with a maturity date on 21 October 2019. The status of this debt was changed to senior debt during 2017. At 31 December 2017, the total outstanding balance under this facility was AZN 3,476 thousand (2016: AZN 3,552 thousand classified as Subordinated debt). The Company is obliged to comply with certain financial covenants stipulated by the aforementioned loan agreements. The company was not in breach of any covenants as at 31 December 2017.

Interest rates for the borrowings represent market rates for the year ended 31 December 2017 and 2016.

The carrying value of each class of term borrowings approximates fair value at 31 December 2017 and 31 December 2016.

Geographical, currency, maturity and interest rate analyses of term borrowings are disclosed in Note 21.

14 Eurobonds

In thousands of Azerbaijani Manats	2017	2016
Eurodollars	8,563	7,109
Total eurobonds in issue	**8,563**	**7,109**

At 31 December 2017, the Company has debt securities in issue of AZN 8,563 thousand (2016: AZN 7,109 thousand) in US Dollars denominated Eurobonds including accrued interest. The portion of these bonds mature in 2019, have a coupon rate of 8% with par value of USD 100,000 per each of 20 bonds (2016: had a coupon rate of 8 %, par value of USD 100,000 per each of 10 bonds). The other portion mature in 2018, have a coupon rate of 7.8% with par value of USD 10,000 per each of 300 bonds (2016: had a coupon rate of 7.8 %, par value of USD 10,000 per each of 300 bonds.)

15 Other Liabilities

Other liabilities comprise the following:

In thousands of Azerbaijani Manats	2017	2016
Payables to employees	195	202
Taxes payable other than on income	3	37
Other accrued liabilities	40	52
Total other liabilities	**238**	**291**

At 31 December 2017 and 2016, all other liabilities are current. Included in payables to employees are accrued bonuses of AZN 85 thousand payable to key management personnel (2016: AZN 91 thousand)

16 Charter Capital

In thousands of Azerbaijani Manats	Charter Capital	Total
At 1 January 2016	8,453	**8,453**
At 31 December 2016	8,453	**8,453**
At 31 December 2017	8,453	**8,453**

In December 2007, TBC Bank Joint Stock Company, one of the largest commercial banks in Georgia contributed AZN 6,424 thousand to the Company's equity.

As a result of this charter capital restructuring the TBC Bank owned 75% and Enclude LTD owned 25% of Company's Charter capital. During 2017 and 2016, the Company's authorised charter capital did not change.

17 Interest Income and Expense

In thousands of Azerbaijani Manats	2017	2016
Interest income		
Loans and advances to customers	5,519	8,203
Correspondent accounts and overnight placements with	45	96
Total interest income	**5,564**	**8,299**
Interest expense		
Term borrowings	1,073	1,748
Debt securities in issue	729	775
Due to banks	318	155
Total interest expense	**2,120**	**2,678**
Net interest income	**3,444**	**5,621**

18 Administrative and Other Operating Expenses

In thousands of Azerbaijani Manats	2017	2016
Staff costs	2,028	2,229
Rent	227	351
Professional services	180	96
Depreciation / amortisation charge for the year	104	123
Communication	90	97
Advertising and marketing	82	101
Other	270	331
Total administrative and other operating expenses	**2.981**	**3.328**

Included in staff costs are statutory pension contributions of AZN 295 thousand (2016: AZN 352 thousand).

19 Income Taxes

Income tax expense comprises the following:

In thousands of Azerbaijani Manats	2017	2016
Current tax expense	223	583
Deferred tax expense	158	54
Income tax expense for the year	**381**	**637**

The income tax rate applicable to the Company's income is 20% (2016: 20%). The reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Azerbaijani Manats	2017	2016
IFRS profit/(loss) before tax	**1,569**	**(7,086)**
Theoretical tax expense/(credit) at statutory rate (2017: 20%; 2016: 20%)	314	(1,417)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	67	125
- Unrecognised other potential deferred tax assets	-	1,929
Income tax expense for the year	**381**	**637**

Differences between IFRS and Azerbaijani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2016: 20%).

In thousands of Azerbaijani Manats	1 January 2017	(Charged)/ credited to profit or loss	31 December 2017
Tax effect of deductible temporary differences			
Premises and equipment	6	52	58
Loans and advances to customers	1,246	(249)	997
Other liabilities	21	39	60
Net deferred tax asset	**1,273**	**(158)**	**1,115**

In thousands of Azerbaijani Manats	1 January 2016	Charged to profit or loss	31 December 2016
Tax effect of deductible temporary differences			
Premises and equipment	6	-	6
Loans and advances to customers	1,300	(54)	1,246
Other liabilities	21	-	21
Net deferred tax asset	**1,327**	**(54)**	**1,273**

20 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The chief operating decision maker, which is the Board of Directors, reviews the Company's internal reporting in order to assess performance and allocate resources. The operating segments have been determined based on these reports as follows:

20 Segment Analysis (Continued)

(a) Description of products and services from which each reportable segment derives its revenue

The Company is organised on the basis of two main business segments:

Retail – representing loans issued to all individual customers of the Company

MSME – representing loans issued to micro, small and medium enterprises

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax. Other information provided to the Board of Directors is measured in a manner consistent with that in these financial statements, except for the items presented in the relevant reconciliation table below.

(b) Factors that management used to identify the reportable segments

The Company's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

Segment financial information reviewed by the Board of Directors includes loans and advances to customers. Such financial information overlaps with segment analysis provided internally to the the CODM. Board of Directors, therefore, applied the core principle of IFRS 8, *Operating Segments*, in determining which of the overlapping financial information sets should form the basis of operating segments.

(c) Measurement of operating segment profit or loss, assets and liabilities

The Board of Directors reviews financial information prepared based primarily on International Financial Reporting Standards except income taxes that are not allocated to segments.

The Board of Directors evaluates performance of each segment based on profit before tax.

(d) Information about reportable segment profit or loss, assets and liabilities

20 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2017 is set out below:

In thousands of Azerbaijani Manats	Retail	MSME	Total
2017			
External revenues:			
- Interest income – Loans and advances to customers	2,807	2,712	5,519
- Interest income – Correspondent accounts and overnight placements with banks	23	22	45
Interest income	**2,830**	**2,734**	**5,564**
- Interest expense – Term borrowings	(546)	(528)	(1,074)
- Interest expense – Debt securities in issue	(370)	(358)	(728)
- Interest expense – Due to banks	(162)	(156)	(318)
Interest expense	**(1,078)**	**(1,042)**	**(2,120)**
Net interest income (before impairment)	**1,752**	**1,692**	**3,444**
Recovery of provision for loan impairment	611	591	1,202
Net interest income after provision for loan impairment	**2,363**	**2,283**	**4,646**
- Fee and commission expense	(27)	(26)	(53)
- Foreign exchange translation gains less losses	(37)	(35)	(72)
- Other operating income	15	14	29
- Administrative and other operating expenses	(1,516)	(1,465)	(2,981)
Profit/(loss) before tax	**798**	**771**	**1,569**
Income tax expense	(194)	(187)	(381)
Profit/(loss) for the year	**604**	**584**	**1,188**

Allocation of gross amount of loans and advances to customers between the reportable segments for the year ended 31 December 2017 is set out below:

In thousands of Azerbaijani manats	Retail	MSME	Total
Gross amount of loans and advances to customers	14,049	13,547	27,596

20 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2016 is set out below:

In thousands of Azerbaijani Manats	Retail	MSME	Total
2016			
External revenues:			
- Interest income – Loans and advances to customers	4,142	4,061	8,203
- Interest income – Correspondent accounts and overnight placements with banks	49	47	96
Interest income	**4,191**	**4,108**	**8,299**
- Interest expense – Term borrowings	(1,381)	(367)	(1,748)
- Interest expense – Debt securities in issue	(612)	(163)	(775)
- Interest expense – Due to banks	(122)	(33)	(155)
Interest expense	**(2,115)**	**(563)**	**(2,678)**
Net interest income (before impairment)	**2,076**	**3,545**	**5,621**
Provision for loan impairment	(7,398)	(1,966)	(9,364)
Net interest loss/(negative interest margin) after provision for loan impairment	**(5,322)**	**1,579**	**(3,743)**
- Fee and commission expense	(113)	(30)	(143)
- Foreign exchange translation gains less losses	73	19	92
- Other operating income	28	8	36
- Administrative and other operating expenses	(2,532)	(673)	(3,205)
- Depreciation and amortisation	(97)	(26)	(123)
Profit/(loss) before tax	**(7,963)**	**877**	**(7,086)**
Income tax expense	(503)	(134)	(637)
Profit/(loss) for the year	**(8,466)**	**743**	**(7,723)**

Allocation of gross amount of loans and advances to customers between the reportable segments for the year ended 31 December 2016 is set out below:

In thousands of Azerbaijani manats	Retail	MSME	Total
Gross amount of loans and advances to customers	15,712	15,323	31,035

21 Financial Risk Management

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

21 Financial Risk Management (Continued)

Credit risk. The Company takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's lending and other transactions with counterparties giving rise to financial assets.

According to the Credit Policy of the Company which is approved by the Board of Directors there are certain limits set for the loan portfolio in order to ensure its diversification and minimisation of possible credit risks may accrue.These limits are as follows:

1. Limits for business portfolio and consumer loans portfolio;
2. Limits by sectors of economy;
3. Regional limits;
4. Concentration limits; and
5. Limits by collateral type.

The limits are developed and revised by the Risk Management Department on a quarterly basis. In the case of material change to the market environment, the limits may also be reviewed. A proposal for any change to the limits is first provided to the Credit Committee and subsequently to the Board of Directors for approval.

The Lending Operations and Reporting Department reviews the adherence to all limits on a regular basis and some of the limits (maximum exposure to a single borrower or group of related borrowers, maximum exposure to related parties) are checked prior to the issue of any new loan.

Management of credit risk is an integral part of the Company's operations. Risk management covers all stages of the credit process, from loan origination and credit approval to collection. The Company's Management Committee and Credit Committee meet regularly and Credit Committee reports at least once a month to the Management Committee. The committees have clearly defined responsibilities and guidelines for maximum risk levels in accordance with the Company's internal asset management policy.

The risk management function is within the overall structure of the duties and powers of the Company's personnel, from the supervisory board down to the employees of the Company. This function requires the determination of: (i) the volume or levels of the risks controlled by the risk management function, (ii) the position of the body responsible for the performance of risk management functions within the internal organisational structure of the Company and (iii) the methodology used to evaluate information about the risks, prepare reports thereon, control such risks (i.e., determine their limits) and taking such information into account as part of the decision-making process.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower and to geographical and industry segments. Such risks are monitored on a day-to-day basis by the relevant responsible sections of the Company such as the Credit Committee. Such risks are also monitored on a monthly basis by the Management Committee and are subject to an annual or more frequent review of risk management procedures by the Management Committee for possible overhaul to improve procedures, if the need arises to reduce the number of overdue loans. Limits on the level of credit risk by product, borrower and industry sector are reviewed regularly by the Board of Directors.

The following sub-limits are applied by the Company:

(1) the maximum loan amount for one borrower or related borrowers is 10 per cent of the Company's total equity if the market value of the collateral is at least equal to 100 per cent of the value of the loan.

(2) the total maximum amount of the Company's loans to related parties must not exceed 10 per cent of the Company's total equity.

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

21 Financial Risk Management (Continued)

Loan Approval Procedure and Delegation. The loan approval process is conducted in accordance with the procedures described in Lending Policy of the Company. The delegation of authorities for loan granting approval process has been defined within the limits approved by Board of Directors of the Company for each level of decision-making authority.

Delegation of authorities for credit granting approval. According to Credit Committee Policy the maximum loan amount for a "group of related companies" is up to 10 per cent of capital. In very exceptional cases the maximum loan exposure amount may be increased above 10 per cent of Company's equity, but no more than additional 5 per cent (total 15 per cent of capital). Such cases might include longstanding Company's borrowers with excellent repayment records, strong debt coverage ratios and clearly established and flawless character references. The maximum permitted allowable combined outstanding exposure of the Company's twenty largest borrowers will be limited to 20 per cent of the total outstanding portfolio. The Credit Committee is authorized to sign loans up to US Dollars 500 thousand. Loans exceeding this amount or any loans for borrowers with total exposure exceeding that limit TBC Bank Risk Management Department approval should be obtained.

The Company performs a detailed evaluation of potential borrowers before granting loans. This analysis is based on their financial situation, position on the market, type and value of collateral provided for secure the loan and on credit history of the potential borrower.

Monitoring process in TBC Kredit includes several departments at different stages.
For loans not overdue, Loan officers monitor their corresponding portfolios and the process is controlled by the Controlling Department. The Controlling department also monitors the outstanding portfolio separately, with each loan being monitored at least once a year. Every large loan with a collateral should be monitored at least once a year by the branches, and the process is controlled by the Controlling department. The Monitoring report is sent to the Risk Department for the further review and analysis.
Overdue loans are monitored by Loan Officers and the Problem Loans Department.
If a client is delaying his repayments often, but for a short term (up to 20 days), Loan Officer should make a reminder call to the client prior to his repayment date. If the loan is due for 20 days, Loan Officer should make a report and submit it to the Arrears Committee. The process is controlled by the Problem Loans department. If the loan is due for 45 days, the loans is transferred to the Problem Loans Department and all the decisions are made by the Arrears Committee. If the client doesn't make a repayment for 90 consecutive days after being transferred to the Problem Loans Department, the loan is transferred to the Legal Department.

The appraisal of the collateral value provided to secure a loan is conducted by an independent qualified evaluator.

Dealing with problematic loans

The company has introduced a new department named "Problem Loans Department" that established strict rules in dealing with significantly deteriorated loans.

If the credit customer does not repay the due amount in 20 days, new analysis of his business is made (or new salary check is performed). New monitoring form is created and the data is sent to the controlling department. The Company sends official letters to the client, all guarantors and collateral holders not later than 25 days after the delay; the letter should contain information on the current debt and require the client to repay the due amount during the next 10 days. The letter might also mention the consequences of non-repayment, such as starting the court process.

Delinquent Loans Committee meets once a month where all loans over 45 days in delays are being monitored, and makes decisions on how to deal with them further. Upon a decision of the committee, those loans go to the Problem Loans Department that either distributes the loan among the recovery officers or sends the loan to the soft collection officer. During the whole process of working with problematic loans, a client, a loan officer, a branch manager or Problem Loans Department can initiate a restructuring of the loan, which is approved, either by branch Manager, Risk Management Department, Deputy Director, Director, Board of Directors or some of these bodies aggregately, depending on the certain limits and conditions of the restructuring.

21 Financial Risk Management (Continued)

The following table presents the maximum exposure to credit risk of financial assets. For financial assets in the statement of financial position, the maximum exposure is equal to the carrying amount of those assets prior to collateral:

In thousands of Azerbaijani Manats	Maximum exposure	Net exposure
31 December, 2017		
Cash and cash equivalents	1,260	1,260
Loans and advances to customers	19,290	19,290
Other financial assets	2,578	2,578
31 December, 2016		
Cash and cash equivalents	2,005	2,005
Loans and advances to customers	20,206	20,206
Other financial assets	1,889	1,889

Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. The goal of the Company's market risk management is to limit and reduce the amount of possible losses on open market positions that may be incurred by the Company due to negative changes in currency exchange rates and interest rates. The Management Committee sets limits on the value of risk that may be accepted, which is monitored on a daily basis. The open currency position in foreign currency may not exceed 15 per cent of the Company's total equity. The open currency position of the Company in any single currency may not exceed 10 per cent, and in all foreign currencies 15 per cent of the Company's total equity.

Currency risk. The Company takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Company does not deal in any derivative instruments for speculative or hedging purposes. Such instruments are not commonly used in Azerbaijan. While managing open currency position the Company considers all provisions to be denominated in the local currency. The table below summarises the Company's exposure to foreign currency exchange rate risk at the period end date:

	2017			2016		
In thousands of Azerbaijani Manats	Monetary financial assets	Monetary financial liabilities	Position	Monetary financial assets	Monetary financial liabilities	Position
Azerbaijani Manats	4,279	2,403	1,876	3,173	2,118	1,055
US Dollars	18,852	18,417	435	20,937	20,670	267
Total	**23,131**	**20,820**	**2,311**	**24,110**	**22,788**	**1,322**

The above analysis includes only monetary assets and liabilities. Investments in non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the period end date, with all other variables held constant:

	2017	2016
In thousands of Azerbaijani Manats	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 20% (2016:20%)	87	53
US Dollar weakening by 20% (2016:20%)	(87)	(53)

Other than as a result of any impact on the Company's profit or loss, there is no other impact on the Company's equity as a result of such change in exchange rates. The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Company.

21 Financial Risk Management (Continued)

The Company makes the following assumptions when carrying out its sensitivity analysis:

- The sensitivity analysis shows the effects of changes that are considered to be reasonably possible over the period until the Company will next present these disclosures, which is usually its next annual reporting period.
- The Company discloses only the effects of the changes at the limits of the reasonably possible range of the relevant risk variable, rather than all reasonably possible changes.

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The Management Committee monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Company's profit is not exposed to AZN market interest rate changes because the Company does not have variable interest assets or liabilities denominated in AZN and USD at 31 December 2017 and 2016, except for loan from JSC "TBC Bank".

The Company monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2017		2016	
In % p.a.	**AZN**	**USD**	**AZN**	**USD**
Assets				
Loans and advances to customers	30	14	28	17
Liabilities				
Term borrowings	-	7	-	7
Due to banks	13	-	17	-
Eurobonds	-	8	-	8

Geographical risk concentrations. The geographical concentration of the Company's financial assets and liabilities at 31 December 2017 is set out below:

In thousands of Azerbaijani Manats	**Azerbaijan**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	876	-	387	1,263
Loans and advances to customers	15,949	-	3,341	19,290
Other financial assets	2,578	-	-	2,578
Total financial assets	**19,403**	**-**	**3,728**	**23,131**
Liabilities				
Due to banks	2,337	-	-	2,337
Term borrowings	-	6,378	3,476	9,854
Eurobonds	-	-	8,563	8,563
Other financial liabilities	66	-	-	66
Total financial liabilities	**2,403**	**6,378**	**12,039**	**20,820**
Net position in on-balance sheet financial instruments	**17,000**	**(6,378)**	**(8,311)**	**2,311**

Assets and liabilities have generally been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which they are physically held.

21 Financial Risk Management (Continued)

The geographical concentration of the Company's financial assets and liabilities at 31 December 2016 is set out below:

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	1,909	-	106	2,015
Loans and advances to customers	20,206	-	-	20,206
Other financial assets	1,889	-	-	1,889
Total financial assets	**24,004**	**-**	**106**	**24,110**
Liabilities				
Due to banks	2,022	-	-	2,022
Term borrowings	-	10,009	-	10,009
Eurobonds	-	-	7,109	7,109
Subordinated debt	-	-	3,552	3,552
Other financial liabilities	96	-	-	96
Total financial liabilities	**2,118**	**10,009**	**10,661**	**22,788**
Net position in on-balance sheet financial instruments	**21,886**	**(10,009)**	**(10,555)**	**1,322**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing the exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Note 8.

Liquidity risk. Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations arising from its financial liabilities. It refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

In order to manage liquidity risk, the Company performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. They also set parameters for the risk diversification of the liability base.

Loan agreements with international financial institutions also have minimum liquidity covenants in their agreements with the Company. As of 31 December 2017 and 31 December 2016, Management considers that the Company was in compliance with aforementioned liquidity covenants. Refer to Note 13.

The Company's liquidity policy is comprised of the following:

- Projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;
- Maintaining a funding plan commensurate with the Company's strategic goals;
- Maintaining a diverse range of funding sources thereby increasing the Company's borrowing capacity, domestically as well as from foreign sources;
- Maintaining highly liquid and high-quality assets;
- Adjusting its product base by time bands against available funding sources; and
- Constant monitoring of asset and liability structures by time-bands.

The following tables show carrying amounts of liabilities of the Company including potential future non-accrued interest ranked on the basis of the remaining period from the period end date to their contractual maturity date.

21 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial liabilities at 31 December 2017 is as follows:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Liabilities							
Due to banks	25	50	75	2,463	-	-	2,613
Term borrowings	210	419	620	1,249	8,558	-	11,056
Eurobonds	56	112	167	5,303	3,514	-	9,152
Total potential future payments for financial obligations	**291**	**581**	**862**	**9,015**	**12,072**	**-**	**22,821**

The undiscounted maturity analysis of financial liabilities at 31 December 2016 is as follows:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Liabilities							
Due to banks	44	162	242	258	1,888	-	2,594
Term borrowings	10,067	-	-	-	-	-	10,067
Eurobonds	58	116	146	379	7,670	-	8,369
Subordinated debt	51	76	118	235	4,402	-	4,882
Total potential future payments for financial obligations	**10,220**	**354**	**506**	**872**	**13,960**	**-**	**25,912**

The Company does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Company monitors expected maturities and the resulting expected liquidity gap as follows:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
At 31 December 2017							
Financial assets	4,347	5,125	3,573	3,876	5,492	718	23,131
Financial liabilities	234	375	465	8,365	11,381	-	20,820
Net liquidity gap based on expected maturities	**4,113**	**4,750**	**3,108**	**(4,489)**	**(5,889)**	**718**	**2,311**
At 31 December 2016							
Financial assets	5,286	2,023	2,477	4,092	9,028	1,204	24,110
Financial liabilities	10,160	105	162	111	12,250	-	22,788
Net liquidity gap based on expected maturities	**(4,874)**	**1,918**	**2,315**	**3,981**	**(3,222)**	**1,204**	**1,322**

21 Financial Risk Management (Continued)

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

Management considers that the current favourable macroeconomic environment for financial institutions operating in Azerbaijan, positive cash flows, the profitability of operations and access to foreign financial resources as required significantly decrease the risk of losses arising from current liquidity mismatches.

22 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a sufficient capital base.

At 31 December 2017 and 2016, the Company complied with capital adequacy requirements set by financial covenants stipulated by term borrowings.

Amount of capital managed at 31 December 2017 and 2016, was AZN 4,268 thousand and AZN 3,080 thousand, respectively.

23 Offsetting Financial Assets and Financial Liabilities

The Company has no financial assets or liabilities which were set-off in accordance with the requirements of IFRS and presented net in the statement of financial position. Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2017:

In thousands of Azerbaijani Manats	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: financial instruments	Net amount of exposure
31 December 2017	**(a)**	**(b)**	**(c) = (a) – (b)**
Financial assets			
Loans to customers	19,290	9,854	9,436
Financial liabilities			
Term borrowings	9,854	9,854	-

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2016:

In thousands of Azerbaijani Manats	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: financial instruments	Net amount of exposure
31 December 2016	**(a)**	**(b)**	**(c) = (a) – (b)**
Financial assets			
Loans to customers	20,206	10,009	10,197
Financial liabilities			
Term borrowings	10,009	10,009	-

24 Contingencies and Commitments

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

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

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

Capital expenditure commitments. At 31 December 2017, the Company had no contractual capital expenditure commitments in respect of premises and equipment (2016: nil).

Operating lease commitments. Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of Azerbaijani Manats	**2017**	**2016**
Not later than 1 year	220	366
Total operating lease commitments	**220**	**366**

25 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Cash and cash equivalents are carried at amortised cost, which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount due to the fact that fixed interest rates historically enjoy stable outlook in Azerbaijan. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

In thousands of Azerbaijani Manats	**2017**	**2016**
Loans and advances to customers		
Corporate loans	6% p.a.	-
Consumer loans	28% p.a.	22% p.a.
Mortgage loans	26% p.a.	24% p.a.
Trade loans	16% p.a.	19% p.a.
Agriculture loans	25% p.a.	25% p.a.
Manufacturing	25% p.a.	18% p.a.
Service	16% p.a.	19% p.a.

Refer to Note 8 for the carrying values loans and advances to customers.

25 Fair Value of Financial Instruments (Continued)

Liabilities carried at amortised cost. The fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Note 13 for the carrying values of term borrowings.

The fair value of bonds in issue is based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2017		31 December 2016	
In thousands of Azerbaijani Manats	**Level 2 fair value**	**Total**	**Level 2 fair value**	**Total**
Financial assets				
- Loans and advances to customers	19,290	19,290	20,206	20,206
- Other financial assets	2,578	2,578	1,889	1,889
TOTAL	**21,868**	**21,868**	**22,095**	**22,095**

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	31 December 2017		31 December 2016	
In thousands of Azerbaijani Manats	**Level 2 fair value**	**Total**	**Level 2 fair value**	**Total**
Financial liabilities				
- Term borrowings	9,854	9,854	10,009	10,009
- Due to banks	2,337	2,337	2,022	2,022
- Subordinated debt	-	-	3,552	3,552
- Eurobonds	8,563	8,563	7,109	7,109
- Other financial liabilities	66	66	96	96
TOTAL	**20,820**	**20,820**	**22,788**	**22,788**

26 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

All financial assets fall within the loans and receivables category.

All financial liabilities are carried at amortised cost.

27 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2017, the outstanding balances with related parties were as follows:

In thousands of Azerbaijani Manats	**Key management personnel**	**Entities under common control**	**Parent company**
Cash and cash equivalents	-	-	387
Term borrowings (contractual interest rate: 6.8% + Libor)	-	-	3,476
Eurobonds (contractual interest rate: (7.8% - 8.00 %)	170	-	-
Gross amount of loans and advances to customers (contractual interest rate: 6%)	-	3,407	-
Impairment provisions for loans and advances to customers at 31 December	-	68	-
Other liabilities	102	-	-

The income and expense items with related parties for the year 2017 were as follows:

In thousands of Azerbaijani Manats	**Key management personnel**	**Entities under common control**	**Parent company**
Interest income	-	46	-
Provision for loan impairment	-	68	-
Interest expense	14	-	464
Administrative and other operating expenses	24	-	-

Aggregate amounts lent to and repaid by related parties during 2017 were:

In thousands of Azerbaijani Manats	**Key management personnel**	**Entities under common control**
Amounts lent to related parties during the year	-	3,400
Amounts repaid by related parties during the year	3	-

27 Related Party Transactions (Continued)

At 31 December 2016, the outstanding balances with related parties were as follows:

In thousands of Azerbaijani Manats	Key management personnel	Parent company
Cash and cash equivalents	-	106
Gross amount of loans and advances to customers (contractual interest rate: 20% - 31%)	3	-
Subordinated debt (contractual interest rate: 12 – 18 %)	-	3,561
Eurobonds (contractual interest rate: 7.8% - 8.00 %)	354	-

The income and expense items with related parties for the year 2016 were as follows:

In thousands of Azerbaijani Manats	Key management personnel	Parent company
Interest income	1	-
Interest expense	-	101
Administrative and other operating expenses	22	-

Aggregate amounts lent to and repaid by related parties during 2016 were:

In thousands of Azerbaijani Manats	Key management personnel
Amounts lent to related parties during the year	4
Amounts repaid by related parties during the year	64

During the year ended 31 December 2017, the remuneration of members of the key management personnel (members of Board of Directors), comprised salaries of AZN 367 thousand (2016: AZN 414 thousand) and bonuses of AZN 47 thousand (2016: AZN 49 thousand).