

**“PASHA Capital
Investment Company”
Closed Joint Stock
Company**

Financial Statements and
Independent Auditor’s Report
For Year ended 31 December 2017

"PASHA CAPITAL INVESTMENT COMPANY" CLOSED JOINT STOCK COMPANY

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"PASHA CAPITAL INVESTMENT COMPANY" CLOSED JOINT STOCK COMPANY

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

Management is responsible for the preparation of the financial statements that present fairly the financial position of "PASHA Capital Investment Company" Closed Joint Stock Company as at December 31, 2017, and the results of its operations, cash flows and changes in shareholder's equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- Making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

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

The financial statements of the Company for the year ended December 31, 2017 were approved by management on April 30, 2018:

On behalf of the Management:



Jeyhun Hajiyev,
General Director
"PASHA Capital Investment Company" CJSC





Deloitte & Touche LLC
Baku White City Office Building.
Baku, AZ1025, Azerbaijan
Tel: +994 (12) 404 1210
Fax: +994 (12) 404 1211
www.deloitte.az

INDEPENDENT AUDITOR'S REPORT

To: Shareholders of "PASHA Capital Investment Company" Closed Joint Stock Company

Opinion

We have audited the financial statements of "PASHA Capital Investment Company" Closed Joint Stock Company (the "Company"), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Azerbaijan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As described in Note 15 to the financial statements, 62% of the Company's sales for the year ended 31 December 2017 were to related parties. Our opinion is not modified in respect of this matter.

Other matter

The financial statements of the Company for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 24, 2017.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

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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 ISA 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 ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Deloitte & Touche

April 30, 2018
Baku, the Republic of Azerbaijan

PASHA CAPITAL INVESTMENT COMPANY CLOSED JOINT STOCK COMPANY

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017
(in Azerbaijani Manats)

	Notes	December 31, 2017	December 31, 2016
Brokerage commissions	6, 15	534,796	296,643
Consulting fees	15	-	43,000
Other		9,810	16,387
Total revenue		544,606	356,030
Staff costs	15	(24,332)	(28,989)
General and administrative expenses	7, 15	(73,456)	(71,510)
Operating profit		446,818	255,531
Foreign exchange (loss)/gain, net	15	(28,856)	65,343
Interest income	15	-	9,163
Loss on derivatives	8	(18,877)	-
Other operating expenses		(6,166)	(2,975)
Profit before income tax		392,919	327,062
Income tax expense	9	(79,532)	(67,578)
Net profit for the year		313,387	259,484
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		313,387	259,484

PASHA CAPITAL INVESTMENT COMPANY CLOSED JOINT STOCK COMPANY

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

(in Azerbaijani Manats)

	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Intangible assets	10	62,750	62,750
Total non-current assets		62,750	62,750
Current assets			
Cash and cash equivalents	12, 15	1,048,693	745,602
Trade and other receivables	11	72,605	6,339
Other assets		7,124	190
Deferred tax assets	9	2,018	-
Total current assets		1,130,440	752,131
TOTAL ASSETS		1,193,190	814,881
LIABILITIES AND EQUITY			
EQUITY			
Share capital	16	300,000	300,000
Retained earnings		721,213	407,826
TOTAL EQUITY		1,021,213	707,826
LIABILITIES			
Current liabilities			
Trade payables	13	120,743	39,676
Deferred revenue	14	21,977	10,727
Tax payables	9	29,257	56,652
Total current liabilities		171,977	107,055
TOTAL LIABILITIES		171,977	107,055
TOTAL LIABILITIES AND EQUITY		1,193,190	814,881

PASHA CAPITAL INVESTMENT CLOSED JOINT STOCK COMPANY
STATEMENT OF CHANGES IN EQUITY
(in Azerbaijani Manats)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total equity</u>
January 1, 2016	<u>300,000</u>	<u>148,342</u>	<u>448,342</u>
Total comprehensive income for the year	-	259,484	259,484
December 31, 2016	<u>300,000</u>	<u>407,826</u>	<u>707,826</u>
Total comprehensive Income for the year	-	313,387	313,387
December 31, 2017	<u>300,000</u>	<u>721,213</u>	<u>1,021,213</u>

PASHA CAPITAL INVESTMENT CLOSED JOINT STOCK COMPANY

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

	Notes	December 31, 2017	December 31, 2016
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before income tax		392,919	327,062
Adjustments for:			
Foreign exchange loss/(gain), net		28,856	(65,343)
Interest income		-	(9,163)
Other operating expenses		6,166	2,975
Loss on derivatives		18,877	-
Cash flow from operating activities before changes in operating assets and liabilities		446,818	255,531
Changes in operating assets and liabilities			
(Increase)/decrease in trade and other receivables		(72,432)	22,954
(Increase) in other assets		(6,934)	(223)
Increase in trade payables		81,067	38,656
Increase in deferred revenue		11,250	10,727
Cash generated from/(used in) operating activities:		459,769	327,645
Profit tax paid		(108,945)	(16,551)
Net cash from/(used in) operating activities		350,824	311,094
CASH FLOW FROM INVESTING ACTIVITIES			
Payment on derivatives		(18,877)	-
Purchase of intangible assets		-	(2,750)
Interest received		-	8,247
Net cash from investing activities		(18,877)	5,497
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		-	-
Net cash from financing activities		-	-
Effect of exchange rate changes		(28,856)	65,343
NET INCREASE IN CASH AND CASH EQUIVALENTS		303,091	381,934
CASH AND CASH EQUIVALENTS, at the beginning of the year	12	745,602	363,668
CASH AND CASH EQUIVALENTS, at the end of the year	12	1,048,693	745,602

PASHA CAPITAL INVESTMENT COMPANY CLOSED JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017 (In Azerbaijani Manats, unless otherwise stated)

1. GENERAL INFORMATION

"PASHA Capital Investment Company" Closed Joint Stock Company (the Company) was incorporated and domiciled in the Republic of Azerbaijan on June 27, 2012. The Company operates under license number 088806 granted by the Ministry of Economy and Industry of the Republic of Azerbaijan on March 9, 2016.

The company's principal is provision of brokerage services to clients willing to invest in the local securities market and the provision of services to related parties mainly related to operations with securities. Services include brokerage, dealership, underwriting and financial advisory related to securities including fixed income securities and equities.

As at 31 December 2017 and 2016 the Company is owned by PASHA Holding.

The ultimate beneficial owners of the Company are Mrs. Leyla Aliyeva and Mrs. Arzu Aliyeva.

2. STATEMENT OF COMPLIANCE

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*¹;
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*¹;
- IFRS 16 *Leases*²;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*¹;
- IFRIC 23 *Uncertainty Over Income Tax Treatments*²;
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*²;
- Annual Improvements to IFRSs 2014-2016 Cycle¹;
- Annual Improvements to IFRSs 2015-2017 Cycle².

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

PASHA CAPITAL INVESTMENT COMPANY CLOSED JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017 (In Azerbaijani Manats, unless otherwise stated)

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Company started its preparation for IFRS 9 in 2017. The preparations covered the key challenges that the Company faces with the new standard. The identification of gaps between its currently developed methodologies and the IFRS 9 requirements in classification and measurement is planned to be finalised in 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

PASHA CAPITAL INVESTMENT COMPANY CLOSED JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017 *(In Azerbaijani Manats, unless otherwise stated)*

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Company started its preparation for IFRS 15 in 2017. The preparations covered the key challenges that the Company faces with the new standard. The identification of gaps between its currently developed methodologies and the IFRS 15 requirements in classification and measurement is planned to be finalised in 2018.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The management has not assessed the impact of new standard on the Company's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises 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 Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The management of the Company does not anticipate that the application of this IFRIC will have a material impact on the Company financial statements as the Company currently uses the approach prescribed in IFRIC 22.

PASHA CAPITAL INVESTMENT COMPANY CLOSED JOINT STOCK COMPANY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Azerbaijani Manats, unless otherwise stated)**

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Entities can apply the Interpretation either fully retrospectively (if it is possible without the use of hindsight) or to apply modified retrospective approach without restatement of comparatives.

The management of the Company does not anticipate that the application of this IFRIC will have a material impact on the Company financial statements as the Company currently uses the approach to recognition of uncertain tax position, which is consistent with IFRIC 23.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The narrow-scope amendments remedy an unintended consequence to the notion of 'reasonable additional compensation'. The amendments allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the SPPI condition if specified criteria are met.

In addition to that, the IASB considered the accounting for financial liabilities that are modified or exchanged that do not lead to derecognition and as a result included in the Basis for Conclusion two paragraphs on that matter. In those paragraphs the Board observes that the accounting in such cases is the same as it is for modifying a financial asset. If the gross carrying amount is changed it will lead to an immediate gain or loss in profit or loss.

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The management of the Company does not anticipate that the application of this amendments will have a material impact on the Company financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

The financial statements have been prepared under the historical cost convention unless described otherwise in the accounting policy below. The financial statements are presented in Azerbaijani Manat ("AZN").

PASHA CAPITAL INVESTMENT COMPANY CLOSED JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017 (In Azerbaijani Manats, unless otherwise stated)

Revenue recognition

Brokerage commissions

Commissions and fees are recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Interest income

For all financial instruments measured at amortized cost interest income is recorded using the effective interest rate. Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss and other comprehensive income.

Foreign currency translation

According to IAS 21 *The Effects of Changes in Foreign Exchange Rates* and its interpretations, the Company's functional currency, which reflects the economic substance of the underlying events and circumstances of the Company, is AZN as the majority of the Company's revenues, costs, inventory purchased, and trade liabilities are either priced, incurred, payable or otherwise measured in AZN.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date.

All differences are taken to the statement of profit or loss and other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

AZN is not a fully convertible currency outside the territory of the Republic of Azerbaijan. Within the Republic of Azerbaijan, official exchange rates are determined daily by the Central Bank of the Republic of Azerbaijan ("Central Bank"). Market rates may differ from the official rates. The Company uses exchange rates published on Bloomberg.com to record transactions denominated in foreign currencies and to retranslate monetary assets and liabilities denominated in foreign currencies at the statement of financial position date. Bloomberg exchange rates are based on indicative rates contributed by market participants and management considers it more representative than the official rates. As at 31 December 2017 and 2016, the official rates of exchange were AZN 2.0307 = Euro 1 and AZN 1.8644 = Euro 1, respectively. Exchange rates published on Bloomberg.com were AZN 2.0342 = Euro 1 and AZN 1.8936 = Euro 1 as at 31 December 2017 and 2016, respectively.

Income tax

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

PASHA CAPITAL INVESTMENT COMPANY CLOSED JOINT STOCK COMPANY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Azerbaijani Manats, unless otherwise stated)**

Deferred tax

Deferred tax is provided, using the balance sheet method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences except:

- Where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

PASHA CAPITAL INVESTMENT COMPANY CLOSED JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017 (In Azerbaijani Manats, unless otherwise stated)

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the comprehensive income when the asset is derecognized.

Financial instruments

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instruments.

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand as well as the VAT deposit account with an original maturity of three months or less.

Prepayments

Prepayments are recognized and carried at the original amount of payment less provision for any amount at risk of non-performance by the counterparty. Prepayments are classified as either current or non-current depending on the expected period of expiration and the nature of goods and services purchased.

Fiduciary activities

The Company provides depository services to its customers, which include transactions with gold and securities on their depository accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Company's financial statements. The Company accepts the operational risk on these activities, but the Company's customers bear the credit and market risks associated with such operations.

Financial assets

Financial assets of the Company are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including trade and other receivables, bank balances and cash are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For loans and receivables objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 120 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loan and receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring that impairment loss. In the case of fixed rate debt instruments measured at amortized cost, the discount rate will be the original effective interest rate.

Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the statement of comprehensive income.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

Financial liabilities (other than financial guarantee), including trade and other payables are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Derecognition of financial liabilities

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

Derivative financial instruments

Forwards and futures. Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specified price and date in the future.

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index. In a currency swap, the Company pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross settled.

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Such financial instruments are held for trading, are initially recognized in accordance with the policy for initial recognition of financial instruments, and are subsequently measured at fair value. The fair values are estimated based on pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when the fair value is positive and as liabilities when it's negative. Gains and losses from transactions in the above instruments are reported in the statement of profit or loss as gains less losses arising from transactions in financial assets (liabilities) at fair value through profit or loss. Changes in the fair value of derivative instruments are included in gain/loss.

Impairment of non-financial assets

The Company assesses at each statement of financial position date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset, except for a property previously revalued and the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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Fair value measurement

Depending on their classification financial instruments are carried at fair value, or amortized 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset from inception to the date of these financial statements or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

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.

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment loss. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expense are not presented separately and are included in the carrying values of related statement of financial position items.

The effective interest rate 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. 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.

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Related party transactions

For the purposes of IFRS financial statements, parties are considered to be related if one party has the ability to control the other party or 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. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arms' length basis.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Company's accounting policies described in Note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities and recognized amounts of income and expenses that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, as well as other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of trade and other accounts receivable

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

6. BROKERAGE COMMISSIONS

Brokerage commissions comprised the following:

	<u>2017</u>	<u>2016</u>
Commissions from purchase of corporate bonds	496,381	133,785
Commissions from underwriting services	<u>38,415</u>	<u>162,858</u>
Total Brokerage Commissions	<u>534,796</u>	<u>296,643</u>

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7. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprised the following:

	<u>2017</u>	<u>2016</u>
Professional services	53,632	37,582
Membership fees	14,516	4,905
Bank service charges	4,551	26,592
Others	757	2,431
Total General and Administrative Expenses	<u>73,456</u>	<u>71,510</u>

8. LOSS ON DERIVATIVES

The Company incurred loss on derivatives in the amount of AZN 18,877, as a result of forward contract signed with PASHA Bank on the purchase of TRY.

9. INCOME TAXES AND TAX PAYABLES

Major components of income tax expense were as follows for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
Current income tax expenses	81,550	67,578
Deferred tax benefit	(2,018)	-
Income tax expense reported in the statement comprehensive income	<u>79,532</u>	<u>67,578</u>

During 2017 and 2016 the Republic of Azerbaijan was the only tax jurisdiction in which the Company's profits were subject to taxation.

The following is a reconciliation of the income tax benefit to the amount that arose by applying the statutory tax rate to the profit before income tax reported in the financial statements as at 31 December 2017 and 2016, respectively:

Profit before income tax	392,919	327,062
Theoretical tax charge at statutory rate 20%	78,584	65,412
Effect of Non-Deductibles	<u>948</u>	<u>2,166</u>
Income Tax expense	<u>79,532</u>	<u>67,578</u>

As at December 31, 2017 Taxes payable includes only corporate income tax payable in the amount of AZN 29,257 (2016: AZN 56,652).

10. INTANGIBLE ASSETS

As at December 31, 2017 intangible assets includes license for brokerage operation in the amount AZN 62,750, which has Indefinite life. (2016: AZN 62,750)

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11. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprised the following as at 31 December:

	<u>2017</u>	<u>2016</u>
Receivables from agent services	41,120	-
Commission receivables	31,485	6,339
Total Trade and other Receivables	<u>72,605</u>	<u>6,339</u>

The average credit period is 15 days while actually the customer is required to pay in accordance with specific contractual terms. No interest is charged on trade and other accounts receivable.

In determining the recoverability of a trade and other accounts receivable, the Company considers any change in the credit quality of the trade and other accounts receivable from the date credit was initially granted up to the end of the reporting period.

Receivables from agent services are recognized by the Company on behalf of Baku Stock Exchange and National Deposit Center and the Company is not exposed to credit risk on such receivables.

See below for the movement in allowance for doubtful accounts:

As at 31 December 2016	-
Charge for the year	6,166
Utilized	-
As at 31 December 2017	<u>6,166</u>

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are held at related party banks. The banks are rated by Fitch Ratings at B+ as at August 31, 2017.

13. TRADE PAYABLES

Trade Payables comprised the following as at 31 December:

	<u>2017</u>	<u>2016</u>
Commissions Payable	85,343	15,192
Accrued expenses	35,400	24,484
Total Trade Payables	<u>120,743</u>	<u>39,676</u>

14. DEFERRED REVENUE

As at December 31, 2017 deferred revenue includes amount received from customers for rendering services in the amount of AZN 21,977 (2016: AZN 10,727)

15. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include shareholders, affiliates and entities under common ownership and control with members of key management personnel.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms and conditions as transactions between unrelated parties.

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

	Notes	31-Dec-17		31-Dec-16	
		Related party amounts	Total category as per the statement of comprehensive income	Related party amounts	Total category as per the statement of comprehensive income
Brokerage commissions	6		534,796		296,643
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		315,330		83,060	
Consulting fees					43,000
- shareholders and entities in which a substantial interest is owned by shareholders of the Group				15,000	
General and administrative expenses	7		73,456		71,510
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		56,713		26,641	
Interest income					9,163
- shareholders and entities in which a substantial interest is owned by shareholders of the Group				9,163	
Foreign exchange (loss)/gain, net			(28,856)		65,343
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		(28,856)		65,343	

	Notes	31-Dec-17		31-Dec-16	
		Related party amounts	Total category as per the statement of financial position	Related party amounts	Total category as per the statement of financial position
Cash and Cash Equivalents	12		1,048,693		745,602
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		1,048,693		745,602	

Compensation of key management personnel

Key management personnel comprise members of the Management Board of the Company, totalling 2 (two) persons as at 31 December 2017 and 2 (two) persons as at 31 December 2016. Total compensation to key management personnel approximated AZN 14,428 and AZN 15,299 for the years ended 2017 and 2016, respectively.

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16. SHARE CAPITAL

As at 31 December 2017 and 2016, the authorized and outstanding number of the Company's shares was 3,000. The par value of each share is AZN 100. The share capital comprised the following as at 31 December 2017 and 2016:

	Number of shares issued and outstanding	Ownership %
PASHA Holding	3,000	100.00
Total	3,000	100.00

Dividends on ordinary shares

During 2017 and 2016, the Company did not declare any dividends.

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise trade payables, accrued liabilities due to related party and third parties. Cash and cash equivalents and trade receivables represent Company's financial assets arising directly from its operations.

The Company believes the amounts presented as financial instruments in the accompanying financial statements are reasonable estimates of their fair values. The fair value of cash and cash equivalents, payables, receivables and other monetary current assets and liabilities is estimated to approximate carrying value due to their short-term nature.

The main risks arising from the Company's financial instruments are foreign currency risk and liquidity risk. Management reviews and agrees policies for managing each of the following risks:

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates.

The table below summarizes currency risks based on reports reviewed by key management personnel as at 31 December 2017;

Financial assets	AZN	USD	TRY	Total
Cash and cash equivalents	370,481	678,212	-	1,048,693
Total Financial assets	370,481	678,212	-	1,048,693
Open currency position	370,481	678,212	-	1,048,693

The table below summarizes currency risks based on reports reviewed by key management personnel as at 31 December 2016:

Financial assets	AZN	USD	TRY	Total
Cash and cash equivalents	47,252	679,016	19,334	745,602
Total Financial assets	47,252	679,016	19,334	745,602
Open currency position	47,252	679,016	19,334	745,602

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Sensitivity analysis

A weakening of the AZN, as indicated below, against the following currencies at December 31 would have decreased equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Entity considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

As at 31 December 2017:

	USD impact	
	USD/AZN + 30%	USD/AZN - 30%
Profit/(loss) before tax	203,464	(203,464)

As at 31 December 2016:

	USD impact		TRY impact	
	USD/AZN + 30%	USD/AZN - 30%	TRY/AZN + 30%	TRY/AZN - 30%
Profit/(loss) before tax	203,705	(203,705)	5,800	(5,800)

A strengthening of the AZN against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to daily calls on its available cash resources. Liquidity risk is managed by the Finance Department of the Company. The Management monitors monthly rolling forecasts of the Company's cash flows.

The liquidity management of the Company requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring liquidity ratio against regulatory requirements.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Finance Department. The Finance Department responsibilities include:

- (i) cash flow forecasting and reporting on it to finance manager, if necessary; ii monitoring of largest vendors as a factor of risk of liquidity concentration;
- (ii) active involvement into domestic and international markets for obtaining mid-term and short-term borrowings in case of necessity; and
- (iii) monitoring of possible cash movements due to the expanding activity of the Company.

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The liquidity analysis of the financial assets and liabilities as at December 31, 2017 is as follows:

	<u>Demand and less than 1 month</u>	<u>From 1 to 3 months</u>	<u>Total</u>
Financial Assets			
Cash and Cash Equivalents	1,048,693	-	1,048,693
Trade and other receivables	72,605	-	72,605
Total Financial Assets	<u>1,121,298</u>	<u>-</u>	<u>1,121,298</u>
Financial Liabilities			
Trade payables	120,743	-	120,743
Total Financial Liabilities	<u>120,743</u>	<u>-</u>	<u>120,743</u>
Liquidity Gap	<u>1,000,555</u>	-	<u>1,000,555</u>
Cumulative Liquidity Gap	<u>1,000,555</u>	-	<u>1,000,555</u>

The liquidity analysis of the financial assets and liabilities as at December 31, 2016 is as follows:

Financial Assets			
Cash and Cash Equivalents	745,602	-	745,602
Commissions Receivable	6,339	-	6,339
Total Financial Assets	<u>751,941</u>	<u>-</u>	<u>751,941</u>
Financial Liabilities			
Trade payables	19,676	20,000	39,676
Total Financial Liabilities	<u>19,676</u>	<u>20,000</u>	<u>39,676</u>
Liquidity Gap	<u>732,265</u>	-	<u>732,265</u>
Cumulative Liquidity Gap	<u>732,265</u>	-	<u>732,265</u>

18. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, within the limits allowed, by agreements, obtain additional financial support on the market.

19. CONTINGENCIES AND OPERATING ENVIRONMENT

Current business environment

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

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The Azerbaijani economy has been negatively impacted by a decline in oil prices. The AZN interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Company's future financial position results of operations and business prospects. During 2017 official exchange rate fluctuated between AZN 1.8644 and AZN 2.0307 for 1 Euro (2016: AZN 1.6595 and AZN 1.8716 for 1 Euro)

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

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

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

Fiduciary activities – The Company also provides depositary services to its customers. As at 31 December 2017, the Company hold its customer's Gold totaling AZN 440,596 (XAU 200) on its own bank account, free of charge.

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

Taxation – The taxation system in the Republic of Azerbaijan continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Azerbaijan Republic suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in Azerbaijan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Azerbaijan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

20. SUBSEQUENT EVENTS

No subsequent have occurred that would require recognition or disclosure in the financial statement.