“BAKU STOCK EXCHANGE”
CLOSED JOINT STOCK COMPANY

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

"Baku Stock Exchange" Closed Joint Stock Company

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Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the year ended 31 December 2017

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report set out on pages 2 - 3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Closed Joint Stock Company "Baku Stock Exchange" (the "Company").

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

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2017 were authorized for issue on 18 April 2018 by the Management Board.

On behalf of the Management Board:

Mr. Vuqar Namazov	Mrs. Dilara Babayeva
Chairman of the Management Board Baku, the Republic of Azerbaijan	Finance Director Baku, the Republic of Azerbaijan
18 April 2018	18 April 2018

ANR Audit LLC

Qara Qarayev avenue 84/38,
Baku AZ1096, Azerbaijan
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Independent auditor's report

To the Shareholders and Board of Directors of Closed Joint Stock Company "Baku Stock Exchange"

Report on the audit of the financial statements

Opinion

We have audited the financial statements of CJSC "Baku Stock Exchange" (the Company), which comprise the statement of financial position as at 31 December 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 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of 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.

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.

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.

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Namiq Abbasli.

Namiq Abbasli
Licensed auditor (lisence no. 080833)
ANR Audit LLC

AZƏRBAYCAN RESPUBLİKASI Məhdud Məsuliyyətli Cəmiyyəti «ANR Audit» Limited Liability Company AZERBAIJAN REPUBLIC

18 April 2018
Baku, the Republic of Azerbaijan

Statement of Comprehensive Income for the year ended 31 December 2017
(in Azerbaijan Manats)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Transaction fee income	4	2,712,700	645,137
Other services income	5	51,300	63,400
Total revenue		**2,764,000**	**708,537**
Salaries and other employee benefits		(696,224)	(814,037)
General and administrative expenses	6	(197,958)	(283,868)
Depreciation of property and equipment	13	(72,082)	(74,834)
Amortization of intangible assets	13	(41,679)	(42,064)
Gain / (loss) on disposal of property, equipment and intangible assets		83	(4,265)
Total operating expenses		**(1,007,860)**	**(1,219,068)**
Operating profit / (loss)		**1,756,140**	**(510,531)**
Interest income	7	163,684	170,853
Interest expense		-	(1,483)
Foreign exchange (loss) / gain		(76,472)	224,400
Profit / (loss) before income tax		**1,843,352**	**(116,761)**
Income tax (expense) / benefit	8	(372,070)	480
Profit / (loss) for the year		**1,471,282**	**(116,281)**

On behalf of the Management Board:

Mr. Vuqar Namazov

Chairman of the Management Board
Baku, the Republic of Azerbaijan

18 April 2018

Mrs. Dilara Babayeva

Finance Director
Baku, the Republic of Azerbaijan

18 April 2018

“Baku Stock Exchange” Closed Joint Stock Company

Statement of Financial Position as at 31 December 2017
(in Azerbaijan Manats)

	Notes	31 December 2017	31 December 2016
ASSETS			
Current assets			
Cash and cash equivalents	9	263,666	21,639
Commission receivable		316,667	45,532
Amounts due from credit institutions	10	3,225,184	2,550,432
Investments available for sale	11	725,270	-
Prepaid taxes		28,727	12,366
Other assets	12	6,500	5,245
Total current assets		**4,566,014**	**2,635,214**
Non-current assets			
Property and equipment	13	337,080	389,982
Intangible assets	13	144,979	184,924
Total non-current assets		**482,059**	**574,906**
TOTAL ASSETS		**5,048,073**	**3,210,120**
LIABILITIES AND EQUITY			
LIABILITIES			
Current liabilities			
Current income tax liability		374,640	-
Other liabilities	14	20,368	25,767
Total current assets		**395,008**	**25,767**
Non-current liabilities			
Deferred tax liabilities	8	11,505	14,075
Total non-current liabilities		**11,505**	**14,075**
TOTAL LIABILITIES		**406,513**	**39,842**
EQUITY			
Share capital	15	1,260,000	1,260,000
Share premium		151,800	151,800
Retained earnings		3,229,760	1,758,478
TOTAL EQUITY		**4,641,560**	**3,170,278**
TOTAL LIABILITIES AND EQUITY		**5,048,073**	**3,210,120**

On behalf of the Management Board:

Mr. Vuqar Namazov

Chairman of the Management Board
Baku, the Republic of Azerbaijan

18 April 2018

Mrs. Dilara Babayeva

Finance Director
Baku, the Republic of Azerbaijan

18 April 2018

“Baku Stock Exchange” Closed Joint Stock Company

Statement of Changes in Equity for the year ended 31 December 2017
(in Azerbaijan Manats)

	Share capital	Share premium	Retained earnings	Total equity
31 December 2015	**1,260,000**	**151,800**	**1,874,759**	**3,286,559**
Total loss for the year	-	-	(116,281)	(116,281)
31 December 2016	**1,260,000**	**151,800**	**1,758,478**	**3,170,278**
Total income for the year	-	-	1,471,282	1,471,282
31 December 2017	**1,260,000**	**151,800**	**3,229,760**	**4,641,560**

On behalf of the Management Board:

Mr. Vuqar Namazov

Chairman of the Management Board
Baku, the Republic of Azerbaijan

18 April 2018

Mrs. Dilara Babayeva

Finance Director
Baku, the Republic of Azerbaijan

18 April 2018

Statement of Cash Flows for the year ended 31 December 2017
(in Azerbaijan Manats)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities			
Profit / (loss)before income tax		**1,843,352**	**(116,761)**
Adjustments to reconcile profit before income tax to net cash provided by operating activities:			
Depreciation of property and equipment	13	72,082	74,833
(Gain) / loss on disposal of property, equipment and intangible assets		(83)	4,265
Amortization of intangible assets	13	41,679	42,064
Foreign exchange loss / (gain)		76,472	(224,400)
Cash flows from operating activities before changes in operating assets and liabilities		**2,033,502**	**(219,999)**
Changes in operating assets and liabilities:			
(Increase) / decrease in other assets		(1,256)	865
Increase in commission receivable		(271,134)	(8,903)
Increase in prepaid tax		(16,361)	(11,273)
Decrease in other liabilities		(5,399)	(33,425)
Cash inflow / (outflow) from operating activities before taxation		**1,739,352**	**(272,735)**
Income tax paid		-	-
Net cash inflow / (outflow) from operating activities		**1,739,352**	**(272,735)**
Cash flows used in investing activities			
Purchases of property and equipment	13	(21,596)	(11,642)
Purchases of intangible assets	13	(1,734)	(2,726)
Proceeds on disposal of property and equipment		2,500	24,300
(Increase) / decrease in amounts due from credit institutions		(674,753)	29,201
Purchases of investments available for sale		(725,270)	-
Net cash (outflow) / inflow from investing activities		**(1,420,853)**	**39,133**
Cash flows from financing activities			
Issue of ordinary shares		-	-
Effect of exchange rate changes on cash and cash equivalents		(76,472)	224,400
Net cash (outflow) / inflow from financing activities		**(76,472)**	**224,400**
Net increase / (decrease) in cash and cash equivalents		**242,027**	**(9,202)**
CASH AND CASH EQUIVALENTS, *beginning of the year*		21,639	30,841
CASH AND CASH EQUIVALENTS, *end of the year*	8	**263,666**	**21,639**

On behalf of the Management Board:

Mr. Vuqar Namazov

Chairman of the Management Board
Baku, the Republic of Azerbaijan

18 April 2018

Mrs. Dilara Babayeva

Finance Director
Baku, the Republic of Azerbaijan

18 April 2018

1. Background

Organization and its principal activity

"Baku Stock Exchange" Closed Joint Stock Company (the "Company") was incorporated on July 21, 2000 and is domiciled in the Republic of Azerbaijan.

The Company's principal business activity is the organization of trading operations with all types of securities within the Republic of Azerbaijan. The Company operates under a license issued by the State Committee for Securities under the auspices of the President of the Republic of Azerbaijan ("SCS") since February 2000.

Registered address and place of business

The address of Company's registered legal address is 19 Bul-Bul Avenue, Baku, AZ1000, Republic of Azerbaijan.

Shareholders of the Company

As at 31 December 2017 and 2016, the shareholders of the Company were as follows:

	31 December 2017, %	31 December 2016, %
Azerbaijan Industry Bank OJSC	9.52	9.52
Demir Investment Company CJSC	4.76	4.76
Kapital Partners LLC	4.76	4.76
Brokdil-Az LLC	4.76	4.76
Azer-Turk Bank OJSC	4.76	4.76
BoB Broker LLC	4.76	4.76
Kapital Bank OJSC	4.76	4.76
Global Securities Corporation	4.76	4.76
Istanbul Stock Exchange	4.76	4.76
Mars Investment LLC	4.76	4.76
Respublika Invest LLC	4.76	4.76
Standard Capital LLC	4.76	4.76
Capital Management Investment Company OJSC	4.76	4.76
International Bank of Azerbaijan OJSC	4.76	4.76
UniCapital Investment Company OJSC	4.76	4.76
United Credit Bank OJSC	4.76	4.76
Yapi Kredi Invest LLC	-	4.76
Yapi Kredi Bank Azerbaijan OJSC	4.76	-
Caspian Financial LLC	4.76	4.76
Xalq Kapital LLC	4.76	4.76
Invest-AZ Investment Company CJSC	4.76	4.76
Total	**100**	**100**

Operating Environment of the Company

Whilst there have been improvements in economic trends in the country, the Republic of Azerbaijan continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to the existence of a currency that is not freely convertible in most countries outside of the Republic of Azerbaijan, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Republic of Azerbaijan is subject to varying interpretations, and changes, which can occur frequently.

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.

2. Significant Accounting Policies

Statement of compliance

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

Going concern

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

Other basis of presentation criteria

These financial statements are presented in Azerbaijani Manats ("AZN"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, as modified by initial recognition of financial instruments at fair value and the revaluation of available-for-sale financial assets.

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

The principal accounting policies are set out below:

Recognition of income and expense

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Expenses are recognized when incurred. The following specific recognition criteria must also be met before revenue is recognized:

- Transaction (trading-related and service) fee income is recognized when the related services are rendered;
- Interest income and expense are recognized in the income statement on an accrual basis using effective interest rates;
- All fees and other income and expense items are generally recognized on an accrual basis.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss accounts) 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 and loss accounts are recognized immediately in profit and loss accounts.

Financial assets

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

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Cash and cash equivalents

Cash and cash equivalents include unrestricted balances on correspondent and time deposit accounts with the CBAR and other banks having original maturity up to 90 days.

Amounts due from credit institutions

Amounts due from credit institutions are loans originated by the Company by providing money directly to banks. All amounts due from credit institutions are recognized when cash is advanced to counterparties. They are carried at amortized cost less provision for impairment. Amortized cost is based on the fair value of cash consideration given determinable by reference to market prices at origination date.

A credit risk provision for impairment of amounts due from credit institutions is established if there is objective evidence that the Company will not be able to collect the amounts due according to the original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, discounted at the instrument’s original effective interest rate.

If the amount of the provision for impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for impairment in the income statement. When amounts due from credit institutions are uncollectible, they are written off against the related provision for impairment. Such amounts are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are treated as income and included in other income.

Interest earned on deposits with banks is calculated by effective interest method and reflected in the statement of comprehensive income as interest income.

Reclassification of financial assets

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

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

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

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

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On 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 profit and loss accounts.

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

Financial liabilities

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

FVTPL

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

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

Other financial liabilities

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

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

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

Derecognition of financial liabilities

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

Offset of financial assets and liabilities

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

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and amortization and any recognized impairment loss.

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation and amortization are charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. The estimated useful lives, residual values and depreciation/amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Vehicles	7 to 8 years
Computer equipments	5 to 6 years
Furniture and fixtures	5 to 7 years
Intangible assets	5 to 10 years

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss accounts, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

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

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liability are offset and reported net on the statement of financial position if:

- The Company has a legally enforceable right to set off current income tax assets against current income tax liability; and

- Deferred income tax assets and the deferred income tax liability relate to income taxes levied by the same taxation authority on the same taxable entity.

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

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the Republic of Azerbaijan state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Company does not have any pension arrangements separate from the State pension system of the Republic of Azerbaijan. In addition, the Company has no post-retirement benefits or other significant compensated benefits requiring accrual.

Contingencies

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

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared.

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

Foreign currency translation

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

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

Rates of exchange

The exchange rates at reporting date used by the Company in the preparation of the financial statements are as follows:

31 December 2017	31 December 2016
USD 1 = AZN 1.7001	USD 1 = AZN 1.7707
EUR 1 = AZN 2.0307	EUR 1 = AZN 1.8644
GBP 1 = AZN 2.2881	GBP 1 = AZN 2.1745
RUR 1 = AZN 0.0295	RUR 1 = AZN 0.0293

Critical accounting judgements and key sources of estimation uncertainty

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

3. Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Company from 1 January 2017:

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 requires disclosure of a reconciliation of movements in liabilities arising from financing activities.

Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealized losses on debt instruments. The entity will have to recognize deferred tax asset for unrealized losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017). The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5.

The above mentioned new or amended standards and interpretations effective from 1 January 2017 did not have a material impact on the accounting policies, financial position or performance of the Company.

New Accounting Pronouncements

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2018 or later periods and which are relevant to the Company but not early adopted by the Company.

IFRS 9 Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018 with early application permitted). In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. 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 (FVPL).
- 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.

The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but is not expected to have an impact on classification and measurements of the Company's financial liabilities.

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.

IFRS 16 Leases (issued In January 2016 and effective for the annual periods beginning on or after 1 January 2019). IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases*. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability measured at amortized cost. Lessor accounting remains substantially the same as in IAS 17 *Leases*.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued in September 2014 with latest changes on 15 December 2015; effective date is not set)***.*** The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re- measurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors' interests in that former subsidiary.

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 license should be recognized 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.

Amendments to IFRS 2 Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.

Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognized upon the modification, (c) the equity-settled share-based payment is recognized to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date is recorded in profit or loss immediately.

Amendments to IFRS 4 Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments introduce two approaches: (i) an overlay approach and (ii) a deferral approach. Insurers will have the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued. In addition, entities whose activities are predominantly connected with insurance will have an optional temporary exemption from applying IFRS 9 until 2021.

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). The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence.

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

4. Transaction Fee Income

Transaction fee income earned arose from trading transactions of the following types of securities:

	Year ended 31 December 2017	Year ended 31 December 2016
Notes issued by the Central Bank of the Republic Azerbaijan	2,080,575	116,746
Treasury bills issued by the Ministry of Finance of the Republic of Azerbaijan	326,788	289,427
Notes Issued by the Azerbaijan Mortgage Fund	144,910	2,472
Derivatives	103,303	124,555
Corporate bonds	43,714	94,448
Corporate shares	10,333	17,236
Securities under repurchase transactions	3,077	253
Total transaction fee income	**2,712,700**	**645,137**

5. Other Services Income

Other services income comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Fee for remote connection to trading system	24,300	36,540
Membership fee	16,000	16,000
Listing fees	11,000	9,100
Subscription fee for information bulletins	-	1,440
Other services	-	320
Total other services income	**51,300**	**63,400**

6. General and Administrative Expenses

General and administrative expenses comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Rent expenses	43,071	76,324
Utility expenses	27,087	14,175
Repairs and maintenance expenses	19,453	8,353
Membership fees	11,700	8,340
Professional services fees	10,000	54,355
Transportation costs	10,000	9,085
Communication expenses	9,999	11,491
Insurance expenses	9,995	13,195
Representation expenses	8,941	8,752
Bank service charges	7,496	10,032
Staff training expenses	6,113	2,587
Printing and office supplies	5,516	11,779
Business trip expenses	4,522	7,366
Conference organization	3,758	2,546
Taxes, other than income tax expense	1,875	8,221
Advertising and marketing expenses	1,639	10,358
Other expenses	16,793	26,909
Total general and administrative expenses	**197,958**	**283,868**

7. Interest Income

Interest income comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income on time deposits	152,051	170,853
Interest income on debt securities	11,633	-
Total interest income	**163,684**	**170,853**

8. Income Taxes

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2017 and 2016 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by taxation bases' differences for certain assets.

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

Temporary differences as at 31 December 2017 and 2016 comprise:

	31 December 2017	**31 December 2016**
Taxable temporary differences:		
Property and equipment	(67,504)	(80,376)
Other assets	(2,481)	(2,898)
Total taxable temporary differences	**(69,985)**	**(83,274)**
Deductible temporary differences:		
Other liabilities	10,000	10,000
Intangible assets	2,457	2,895
Total deductable temporary differences	**12,457**	**12,895**
Net deferred (taxable) / deductable temporary differences	(57,528)	(70,379)
Net deferred tax liabilities at the statutory tax rate of 20%	(11,506)	(14,075)
Deferred income tax liabilities	**(11,506)**	**(14,075)**

Relationships between tax expenses and accounting profit for the years ended 31 December 2017 and 2016 are explained as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Profit / (loss) before income tax	**1,843,352**	**(116,761)**
Tax at the statutory tax rate of 20%	(368,670)	23,352
Tax effect of permanent differences	(3,400)	(22,872)
Income tax expense	**(372,070)**	**480**
Current income tax expense	(374,640)	-
Deferred income tax (expense) / benefit	2,570	480
Income tax (expense) / benefit	**(372,070)**	**480**

	31 December 2017	31 December 2016
Deferred income tax (liability) / assets		
Beginning of the period	**(14,075)**	**(14,555)**
Change in deferred income tax balances	2,570	480
End of the period	**(11,505)**	**(14,075)**

9. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	31 December 2017	31 December 2016
Cash on hand	1,640	1,310
Other current accounts	262,026	20,329
Total cash and cash equivalents	**263,666**	**21,639**

Currency, liquidity and geographical analysis of cash and cash equivalents are disclosed in Note 20.

10. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	31 December 2017	31 December 2016
Time deposits	3,225,184	2,550,432
Total amount due from credit institutions	**3,225,184**	**2,550,432**

As at 31 December 2017 amounts due from credit institutions included time deposits placed in local commercial banks in the total amount of AZN 3,225,184 with weighted average interest rate of 7.67% (2016: AZN 2,550,432 with weighted average interest rate of 6.12%).

As at 31 December 2017 and 2016 maximum credit risk exposure of amounts due from credit institutions amounted to AZN 3,225,184 and AZN 2,550,432, respectively.

Total interest income on time deposits was amounting AZN 152,051 and AZN 170,853 for the 31 December 2017 and 2016 respectively.

Currency, liquidity and geographical analysis of amounts due from credit organization are disclosed in Note 20.

11. Investments available for sale

Investments available for sale comprise:

Debt securities	Nominal interest rate	**31 December 2017**	Nominal Interest rate	**31 December 2016**
Notes issued by Central Bank of the Republic of Azerbaijan	5%	725,270	-	-
Total debt securities		**725,270**		**-**

Currency, liquidity and geographical analysis of investments available for sale are disclosed in Note 20.

12. Other Assets

Other assets comprise:

	31 December 2017	31 December 2016
Receivables from employees	3,543	2,154
Prepayment for insurance	2,481	2,898
Prepaid expenses	193	193
Other	283	-
Total other assets	**6,500**	**5,245**

13. Property, Equipment and Intangible Assets

	Vehicles	Computer and equipments	Furniture and fixtures	Other	Total Property & Equipment	Intangible Assets	Total
Cost at 31 December 2015	392,800	400,627	95,122	125,693	**1,014,242**	**599,162**	**1,613,404**
Additions	-	7,466	4,176	-	11,642	2,726	14,368
Disposals	(29,000)	(70,006)	(59,452)	-	(158,458)	-	(158,458)
Cost at 31 December 2016	363,800	338,087	39,846	125,693	**867,426**	**601,888**	**1,469,314**
Additions	1,127	12,068	8,401	-	21,596	1,734	23,330
Disposals	-	(5,984)	-	-	(5,984)	-	(5,984)
Cost at 31 December 2017	364,927	344,171	48,247	125,693	**883,038**	**603,622**	**1,486,660**
Accumulated Depreciation at 31 December 2015	(108,669)	(356,580)	(60,615)	(6,640)	**(532,504)**	**(374,900)**	**(907,404)**
Charge for the year	(46,203)	(15,780)	(4,076)	(8,775)	(74,834)	(42,064)	(116,898)
Disposals	3,791	66,729	59,374	-	129,894	-	129,894
Accumulated Depreciation at 31 December 2016	(151,081)	(305,631)	(5,317)	(15,415)	**(477,444)**	**(416,964)**	**(894,408)**
Charge for the year	(45,390)	(13,110)	(4,807)	(8,775)	(72,082)	(41,679)	(113,761)
Disposals	-	3,568	-	-	3,568	-	3,568
Accumulated Depreciation at 31 December 2017	(196,471)	(315173)	(10,124)	(24,190)	**(545,958)**	**(458,643)**	**(1,004,601)**
NBV at 31 December 2016	**212,719**	**32,456**	**34,529**	**110,278**	**389,982**	**184,924**	**574,906**
NBV at 31 December 2017	**168,456**	**28,998**	**38,123**	**101,503**	**337,080**	**144,979**	**482,059**

14. Other Liabilities

Other liabilities comprise:

	31 December 2017	31 December 2016
Professional fees payable	13,978	10,000
Membership fee	5,641	5,646
Payables to suppliers	487	393
Payables to the State Social Protection Fund	-	9,466
Other	262	262
Total other liabilities	**20,368**	**25,767**

15. Share Capital

As at 31 December 2017 the Company’s shareholders’ authorized, issued and fully paid capital amounted to AZN 1,260,000 and comprised 6,300 ordinary shares with a par value of AZN 200 each. All shares are ranked equally and carry one vote (2016: AZN 1,260,000 and comprised 6,300 ordinary shares with a par value of AZN 200 each).

The share capital of the Company in AZN was contributed by the shareholders and they are entitled to dividends and any capital distribution. In accordance with the laws of the Republic of Azerbaijan, the shareholders of the Company should have the following rights: participate in the management of the Company, elect and be elected to its management and executive bodies, collect information related to the activities of the Company, familiarize with annual reports and accounts once a year, request holding the General Meeting of Shareholders, request amendments to the agenda of the General Meeting of Shareholders of the Company, request audit of the activity of the Company and in case of termination of Company’s activities, receive a distribution of Company’s assets remained after settlements with creditors and payment of calculated but unpaid dividends.

During the year ended 31 December 2017 and 2016 the Company does not declared and paid dividends.

16. Financial Commitments and Contingencies

Capital commitments

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

Taxation

Azerbaijani commercial legislation and tax legislation, in particular, may give rise to varying interpretations and amendments. In addition, as management’s interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Company may be assessed additional taxes, penalties and interest. Tax years remain open to review by the tax authorities for three years. Management believes that the Company has already made all tax payments that are due, and therefore no provisions have been made in these financial statements for any potential liabilities.

Pensions and retirement plans

Employees receive pension benefits from the Republic of Azerbaijan in accordance with the laws and regulations of the country. As at 31 December 2017 and 2016, the Company was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

17. Transactions with Related Parties

Related parties or transactions with related parties, as defined by IAS 24 "Related Party Disclosures", represent:

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

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 balances outstanding as at 31 December 2017 and 2016 with related parties:

	31 December 2017		31 December 2016	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Cash and cash equivalents		**263,666**		**21,639**
Shareholders of the Company	*6,667*		*4,623*	
Amounts due from credit institutions		**3,225,184**		**2,550,432**
Shareholders of the Company	*838,609*		*1,039,284*	

Included in the statement of comprehensive income for the year ended 31 December 2017 and 2016 are the following amounts, which arose due to transactions with related parties:

	Year ended 31 December 2017		Year ended 31 December 2016	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Transaction fee income		**2,712,700**		**645,137**
Shareholders of the Company	*610,378*		*340,584*	
Other services income		**51,300**		**63,400**
Shareholders of the Company	*16,870*		*47,980*	
Interest income		**163,684**		**170,853**
Shareholders of the Company	*76,694*		*110,952*	
Key management personnel compensation		**696,224**		**814,038**
Short-term employee benefits	*160,288*		*229,744*	

18. Fair Value of Financial Instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the statement of financial position of the Company is presented below:

	31 December 2017		31 December 2016	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	263,666	263,666	21,639	21,639
Commission receivable	316,667	316,667	45,532	45,532
Amounts due from credit institutions	3,225,184	3,225,184	2,550,432	2,550,432

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments carried at fair value by valuation technique:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The methods and assumptions applied in determining fair values

The estimated fair values of financial instruments have been determined by the Company, using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Azerbaijan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and, therefore, not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Where quoted market prices are not available, the Company used valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated 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.

19. Management of Capital

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to owners, return capital to owners, increase the charter capital or sell assets to reduce debt.

20. Risk Management Policies

The risk management function within the Company is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. 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 to minimize operational and legal risks.

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.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Maximum Exposure

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

The following table presents the maximum exposure to credit risk of financial assets:

				31 December 2017
	Maximum exposure	**Net exposure after offset**	**Collateral Pledged**	**Net exposure after offset and collateral**
Amounts due from credit institutions	3,225,184	3,225,184	-	**3,225,184**

				31 December 2016
	Maximum exposure	**Net exposure after offset**	**Collateral Pledged**	**Net exposure after offset and collateral**
Amounts due from credit institutions	2,550,432	2,550,432	-	**2,550,432**

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from "AAA to BBB". Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Company:

							31 December 2017
	AAA	**AA**	**A**	**BBB**	**< BBB**	**Not rated**	**Total**
Cash and cash equivalents	-	-	-	6,840	17,754	239,072	**263,666**
Commission receivable	-	-	-	-	1,000	315,667	**316,667**
Amounts due from credit institutions	-	-	-	811,000	1,017,614	1,396,570	**3,225,184**

							31 December 2016
	AAA	**AA**	**A**	**BBB**	**< BBB**	**Not rated**	**Total**
Cash and cash equivalents	-	-	-	85	4,815	16,739	**21,639**
Commission receivable	-	-	-	-	1,700	43,832	**45,532**
Amounts due from credit institutions	-	-	-	521,000	648,284	1,381,148	**2,550,432**

Credit risk exposure of the Company is concentrated within the Republic of Azerbaijan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Company's risk management policy are not breached.

Geographical concentration

Assets, liabilities and credit related commitments have generally been based on the country, in which the counterparty is located. This approach allows the Company to minimize potential losses from investment climate fluctuations in the Republic of Azerbaijan.

Liquidity risk

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

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.

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

(i) The remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Company can be required to pay; and

(ii) The expected maturity for non-derivative financial assets based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	31 December 2017 Total
Financial assets					
Amounts due from credit institutions	155,000	680,040	2,390,144	-	**3,225,184**
Investments available for sale	-	-	-	725,270	**725,270**
Total interest bearing financial assets	**155,000**	**680,040**	**2,390,144**	**725,270**	**3,950,454**
Cash and cash equivalents	263,666	-	-	-	**263,666**
Commission receivable	-	316,667	-	-	**316,667**
Total financial assets	**418,666**	**996,707**	**2,390,144**	**725,270**	**4,530,787**
Liquidity gap	418,666	996,707	2,390,144	725,270	
Interest sensitivity gap	155,000	680,040	2,390,144	725,270	
Cumulative interest sensitivity gap	**155,000**	**835,040**	**3,225,184**	**3,950,454**	

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	31 December 2016 Total
Financial assets					
Amounts due from credit institutions	-	885,350	1,665,082	-	**2,550,432**
Total interest bearing financial assets	**-**	**885,350**	**1,665,082**	**-**	**2,550,432**
Cash and cash equivalents	21,639	-	-	-	**21,639**
Commission receivable	45,532	-	-	-	**45,532**
Total financial assets	**67,171**	**885,350**	**1,665,082**	**-**	**2,617,603**
Liquidity gap	67,171	885,350	1,665,082	-	
Interest sensitivity gap	-	885,350	1,665,082	-	
Cumulative interest sensitivity gap	**-**	**885,350**	**2,550,432**	**2,550,432**	

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Company is exposed. There have been no changes as to the way the Company measures risk or to the risk it is exposed during 2017 and 2016.

Interest rate risk

The Company manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Management Board of the Company conducts monitoring of the Company's current financial performance, estimates the Company's sensitivity to changes in fair value interest rates and its influence on the Company's profitability.

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

Impact on profit before tax:

	As at 31 December 2017		As at 31 December 2016	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Financial assets:				
Amounts due from credit institutions	39,505	(39,505)	25,504	(25,504)
Net impact on profit before tax	**39,505**	**(39,505)**	**25,504**	**(25,504)**

Currency risk

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

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

	AZN	USD	EUR	31 December 2017 Total
Assets				
Cash and cash equivalents	244,235	19,431	-	263,666
Commission receivable	316,667	-	-	316,667
Amounts due from credit institutions	1,631,000	1,594,184	-	3,225,184
Investments available for sale	-	725,270	-	725,270
Property and equipment	337,080	-	-	337,080
Intangible assets	144,979	-	-	144,979
Prepaid taxes	28,727	-	-	28,727
Other assets	6500	-	-	6500
Total assets	**2,709,188**	**2,338,885**	**-**	**5,048,073**
Liabilities				
Current income tax liability	374,640	-	-	374,640
Deferred tax liabilities	11,505	-	-	11,505
Other liabilities	10,749	3,978	5,641	20,368
Total liabilities	**396,894**	**3,978**	**5,641**	**406,513**
Open balance sheet position	**2,312,294**	**2,334,907**	**(5,641)**	

	AZN	USD	EUR	31 December 2016 Total
Assets				
Cash and cash equivalents	13,045	8,594	-	21,639
Commission receivable	45,532	-	-	45,532
Amounts due from credit institutions	651,002	1,899,430	-	2,550,432
Property and equipment	389,982	-	-	389,982
Intangible assets	184,924	-	-	184,924
Prepaid taxes	12,366	-	-	12,366
Other assets	5,245	-	-	5,245
Total assets	**1,302,096**	**1,908,024**	**-**	**3,210,120**
Liabilities				
Deferred tax liabilities	14,075	-	-	14,075
Other liabilities	20,121	-	5,646	25,767
Total liabilities	**34,196**	**-**	**5,646**	**39,842**
Open balance sheet position	**1,267,900**	**1,908,024**	**(5,646)**	

Currency risk sensitivity

The following tables provide in detail the Company’s sensitivity to a 10% increase and decrease in the USD and EUR against the AZN. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates.

	As at 31 December 2017		As at 31 December 2016	
	AZN / USD +10%	AZN / USD -10%	AZN / USD +10%	AZN / USD -10%
Net impact on earnings before tax	233,491	(233,491)	190,802	(190,802)

	As at 31 December 2017		As at 31 December 2016	
	AZN / EUR +10%	AZN / EUR -10%	AZN / EUR +10%	AZN / EUR -10%
Net impact on earnings before tax	(564)	564	(565)	565

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

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

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