MCB Non-banking Credit Organization Closed Joint Stock Company

Financial Statements
For the year ended December 31, 2021

MCB Non-banking Credit Organization Closed Joint Stock Company
Financial Statements

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Statement of management responsibilities

Management has prepared and is responsible for the fair presentation of financial statements and related notes of MCB Non-banking Credit Organization Closed Joint Stock Company (the "Company"). These have been prepared in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and also necessarily include amounts based on judgements and estimates made by management.

The Company maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Company's administrative procedures and internal reporting requirements, operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

Mr. Ramal Jafarov
Chief Executive Officer

MCB BOKT
MCB
BOKT
Qapalı Səhmdar Cəmiyyəti

Mr. Elshan Karimov
Chief Accountant

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Independent auditor's report

To the Shareholders of MCB Non-banking Credit Organization Closed Joint Stock Company

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **MCB Non-banking Credit Organization Closed Joint Stock Company** (the "Company"), which comprise the statement of financial position as at December 31, 2021, and the statement of comprehensive income, the statement of changes in equity and the 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 give a true and fair view of the financial position of the Company as at December 31, 2021, 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 (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Grant Thornton

GRANT THORNTON
Baku, Azerbaijan Republic

January 26, 2022

Statement of financial position
As at December 31, 2021

	Notes	2021 AZN	2020 AZN
ASSETS			
Non-current			
Property, equipment and right-of-use assets	5	**334,000**	351,378
Intangible asset		**3,147**	-
Net investment in finance lease	6	**6,960,845**	3,658,586
Loan to a related party	7	**88,520**	109,304
Deferred tax asset	18	**6,734**	14,622
Total non-current assets		**7,393,246**	4,133,890
Current			
Net investment in finance lease	6	**5,455,720**	4,247,047
Loan to a related party	7	**20,784**	18,354
Advances, prepayments and other receivables	9	**486,703**	326,319
Cash and cash equivalents	10	**178,093**	49,350
Total current assets		**6,141,300**	4,641,070
Total assets		**13,534,546**	8,774,960
EQUITY AND LIABILITIES			
Equity			
Share capital	11	**4,283,675**	4,283,675
Retained earnings		**895,638**	236,517
Total equity		**5,179,313**	4,520,192
Liabilities			
Non-current			
Borrowings	12	**2,096,178**	3,459,424
Lease liability	13	**193,783**	266,476
Total non-current liabilities		**2,289,961**	3,725,900
Current			
Borrowings	12	**5,376,836**	19,306
Lease liability	13	**72,693**	63,876
Other current liabilities	14	**615,743**	445,686
Total current liabilities		**6,065,272**	528,868
Total liabilities		**8,355,233**	4,254,768
Total equity and liabilities		**13,534,546**	8,774,960

These financial statements for the year ended December 31, 2021 (including comparatives) were approved on behalf of management on January 26, 2022 and signed as below:

MCB BOKT
MCB
BOKT
Qapalı Səhmdar Cəmiyyəti

Mr. Ramal Jafarov
(Chief Executive Officer)

Mr. Mr. Elshan Karimov
(Chief Accountant)

The accompanying notes 1 to 23 form an integral part of these financial statements.

Statement of comprehensive income
For the year ended December 31, 2021

	Notes	2021 AZN	2020 AZN
Interest income from finance leases		**1,839,594**	1,718,353
Interest expense		**(445,819)**	(480,213)
Net interest income		**1,393,775**	1,238,140
Fee, commission and brokerage income		**197,985**	64,398
Exchange loss - net		**(1,046)**	-
Other income		**4,709**	14,890
Operating income		**1,595,423**	1,317,428
Operating expenses	15	**(555,516)**	(504,431)
Administrative and general expenses	16	**(245,452)**	(180,590)
Profit before provisions		**794,455**	632,407
Net reversal/(charge) of impairment loss on financial assets	17	**30,497**	(16,861)
Profit for the year before tax		**824,952**	615,546
Taxation:			
Current income tax	18	**(157,943)**	(61,476)
Deferred tax expense	18	**(7,888)**	(62,602)
Net profit for the year		**659,121**	491,468
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**659,121**	491,468

The accompanying notes 1 to 23 form an integral part of these financial statement

Statement of changes in equity
For the year ended December 31, 2021

	Share capital AZN	Retained earnings AZN	Total equity AZN
Balance at January 1, 2020	4,283,675	(254,951)	4,028,724
Total comprehensive income	-	491,468	491,468
Balance at December 31, 2020	4,283,675	236,517	4,520,192
Total comprehensive income	-	**659,121**	**659,121**
Balance at December 31, 2021	**4,283,675**	**895,638**	**5,179,313**

The accompanying notes 1 to 23 form an integral part of these financial statements.

Statement of cash flows
For the year ended December 31, 2021

	Notes	2021 AZN	2020 AZN
OPERATING ACTIVITIES			
Profit for the year before tax		**824,952**	615,546
Adjustments for non-cash and non-operating items:			
Depreciation of property, equipment and right-of-use	5	**84,420**	83,217
Amortisation of intangible assets		**1,574**	-
Gain on disposal of property, equipment		**(25,900)**	-
Interest expense		**445,819**	480,213
(Reversal)/Charge for impairment loss of net investment in finance lease	6	**(30,491)**	16,628
(Reversal)/Charge of allowance for impairment loss of cash at banks	10	**(6)**	233
		1,300,368	1,195,837
Changes in working capital:			
Net investment in finance lease		**(4,480,441)**	1,790,755
Loan to a related party		**18,354**	(54,305)
Advances, prepayments and other receivables		**(154,984)**	(200,302)
Other current liabilities		**101,608**	162,748
		(3,215,095)	2,894,733
Taxes paid		**(107,781)**	-
Net cash (used in)/generated from operating activities		**(3,322,876)**	2,894,733
INVESTING ACTIVITIES			
Purchase of property and equipment		**(67,042)**	(21,618)
Purchase of intangible assets		**(4,721)**	-
Proceeds from disposal of property and equipment		**20,500**	-
Net cash used in investing activities		**(51,263)**	(21,618)
FINANCING ACTIVITIES			
Proceed from borrowings	12	**6,930,542**	2,061,600
Repayment of borrowings	12	**(2,936,258)**	(4,382,613)
Payment of lease liability – net		**(102,000)**	(58,994)
Finance cost paid		**(389,408)**	(508,618)
Net cash generated from/(used in) financing activities		**3,502,876**	(2,888,625)
Net increase/(decrease) in cash and cash equivalents		**128,737**	(15,510)
Cash and cash equivalents at the beginning of the year		**49,770**	65,280
Cash and cash equivalents at the end of the year	10	**178,507**	49,770

The accompanying notes 1 to 23 form an integral part of these financial statements.

1 Legal status and nature of operations

MCB Non-banking Credit Organization Closed Joint Stock Company (the "Company") was incorporated on October 16, 2009 in the Republic of Azerbaijan. The Company is a closed joint stock company limited by shares and was set up in accordance with Azerbaijani regulations. The Company was initially registered under the registration number 1701045991, dated October 15, 2009 at the Ministry of Taxes of the Republic of Azerbaijan. Due to the change in the share capital the Company was re-registered on March 28, 2014 with the Ministry of Taxation of the Republic of Azerbaijan. The Company's registered address is 49 B Tbilisi Avenue Baku AZ1065, Republic of Azerbaijan.

The Company's principal business activity is provision of finance leases within the Republic of Azerbaijan. The Company leases out various types of automotive vehicles, industrial equipment, equipment used in medicine, health care, and for other business needs. In addition, the Company leases out cars and trucks. Further the Company is involved in real estate finance leases. During the year on November 12, 2021, the Central Bank of the Republic of Azerbaijan (CBAR) has issued non-banking credit organization (NBCO) license (BKT-42) to the Company. The Company is a subsidiary of MCB Bank Limited, which is also the Ultimate Parent Company (the "Parent Company"), a public limited company listed on Pakistan Stock Exchange in Pakistan.

2 Statement of compliance with IFRS

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

3 Standards, interpretations and amendments to existing standards

3.1 Standards, interpretations and amendments to existing standards that are effective in 2021

Following relevant new standards, revisions and amendments to existing standards were issued by the IASB, which are effective for the accounting period beginning on or after January 1, 2021 and have been adopted by the Company. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current year but may affect the accounting for the Company's future transactions or arrangements.

• Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to phase 2 of interest rate benchmark reforms.

3.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these financial statements, the following new standards, interpretations and amendments to existing standards have been published but are not yet effective and have not been adopted early by the Company. Information on the relevant new standards, amendments and interpretations that are not yet effective are given below:

New and revised IFRS	Effective for annual period beginning on or after
Amendments to IAS 16 Property, plant and equipment relating to proceeds before intended use.	1 January 2022
Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets relating to onerous contracts.	1 January 2022
Amendments to IFRS 3 Business Combinations relating to reference to conceptual framework	1 January 2022

3 Standards, interpretations and amendments to existing standards (continued)

3.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company (continued)

Annual improvements to IFRS standards 2018 – 2020	1 January 2022
Amendments to IAS 8 Accounting policies, Changes in accounting estimates and errors	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements relating to classification of Liabilities as Current or Non-Current	1 January 2023
Amendment to IFRS 17 Insurance contracts	1 January 2023
Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures relating to treatment of sale or contribution of assets from investors	Effective date deferred indefinitely

Management anticipates that all the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. The Company's management has yet to assess the impact of these changes on the Company's financial statements.

4 Summary of significant accounting policies

4.1 Overall considerations

These financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below. Further the accounting policies applied in the preparation of the financial statements are consistent with those applied in the annual financial statements for the year ended December 31, 2020.

4.2 Foreign currency translation

Functional and presentation currency

These financial statements are presented in Azerbaijan Manat (AZN), which is also the functional currency of the Company.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

4.3 Property, equipment and right-of-use assets

Property and equipment are initially recognised at acquisition cost or construction cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Company's management. These assets are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses (if any). Depreciation on all operating fixed assets is charged using the diminishing balance method except for vehicles, computer and office equipment and right-of-use asset, which are depreciated using the straight-line method in accordance with the rates below and after taking into account residual value, if any.

4 Summary of significant accounting policies (continued)

4.3 Property, equipment and right-of-use assets (continued)

The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date.

Depreciation of property and equipment is calculated at the estimated following rates:

• Furniture and fixtures	10%
• Computer and office equipment	20%
• Vehicles	20%
• Other fixed assets	20%
• Right-of-use asset	Over the period of lease liability

Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within 'other income - net'.

4.4 Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line method over their estimated useful life of 3 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

4.5 Impairment testing of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles, such as market and asset-specific risks factors. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

4 Summary of significant accounting policies (continued)

4.6 Leases as lessor

Recognition and measurement of lease

Leases are accounted for in accordance with IFRS 16. When assets are leased out under finance lease, the present value of the minimum lease payments is recognised as a receivable. Leases are transferred as finance lease when risk and benefit of ownership are significantly transferred by the lease term to lessee. Other types of leases are classified as operating leases.

As per lease, the lessor transfers, in return of payments, the usufruct of an asset to the lessee for a defined period of time that ends with the ownership transferred to lessee.

Investment in finance leases is shown at the net present value of finance lease payments less the provision for doubtful receivables (if any). All direct costs of finance lease are shown under the net present value of investment in finance leases.

Finance lease payments are divided between interest income and the principal payment so that the finance lease income is allocated over the period of the contract.

Inception of the lease

The inception of the lease is considered to be the date of the lease agreement, or the date of commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties involved in the transaction, and shall specifically set forth the principal terms of the transaction.

Commencement of the lease term

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

4.7 Loan to a related party

Loan to a related party is initially recognized at a fair value. subsequently, this is measured at amortized cost using the effective interest method and are carried net of any allowance for impairment losses. The part of loan to be received within twelve months after balance sheet is classified as current asset and the part of loan to be receive after twelve months of balance sheet date is classified as non-current asset.

4.8 Financial instruments

Recognition, initial measurement and de-recognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expired. Financial assets and financial liabilities are measured subsequently as described on next page.

4 Summary of significant accounting policies (continued)

4.8 Financial instruments (continued)

Classification and measurement

Financial assets

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL).

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment:

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is being managed and information is provided to management.

Assessment whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

4 Summary of significant accounting policies (continued)

4.8 Financial instruments (continued)

Classification and measurement (continued)

Financial assets (continued)

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Derecognition:

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

Impairment

The Company recognises allowance for impairment for expected credit losses (ECL) on financial assets including at amortised cost.

The Company measures allowance for impairment at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition, in which case 12-month ECL is measured.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

Measurement of ECL:

ECL are probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

Credit-impaired financial assets:

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit- impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-off:

Assets carried at amortised cost and debt securities at FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Classification and subsequent measurement of financial liabilities

Financial liabilities comprise borrowings, lease liability, accrued interest and accrued liabilities.

Financial liabilities are measured subsequently at amortised cost using the effective interest method.

All interest-related charges are included within 'interest expenses'.

4 Summary of significant accounting policies (continued)

4.8 Financial instruments (continued)

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4.9 Cash and cash equivalents

Cash and cash equivalents are items, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents in the statement of financial position comprise cash on hand (if any) and cash in banks and are carried at amortised cost using the effective interest method. Further the Company has applied IFRS 9 ECL model to calculate the impairment of cash in banks. For purpose of the statement of cash flows, cash on hand and cash at banks are considered as cash and cash equivalents.

4.10 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued.

Retained earnings include all current and prior years' profits and losses.

4.11 Employee benefits

Staff costs and related contributions

Wages, salaries, contributions to the state pension and social insurance funds in Azerbaijan Republic, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

End of service benefits

As required by Azerbaijan legislation, the Company withholds amounts of pension contributions from the salaries of employees and pays them to the state pension fund along with its own share of contribution. Upon retirement all retirement benefit payments are made by the state pension fund.

4.12 Provisions and contingencies

Provisions are recognised when present obligations because of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

4 Summary of significant accounting policies (continued)

4.12 Provisions and contingencies (continued)

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

4.13 Revenue recognition

Revenue is recognised when the amount of revenue can be measured reliably, collection is probable, the costs incurred or to be incurred can be measured reliably, and when the criteria for the Company's activities have been met. These activity-specific recognition criteria are described below:

Lease rental income

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.

Gains / losses on termination of lease contracts are recognized as income when these are realized.

4.14 Borrowing cost

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in statement of comprehensive income using the effective interest method. and reported in 'interest expense'. Foreign currency gains and losses are reported on a net basis depending on whether foreign currency movements are in a net gain or net loss position.

4.15 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

4.16 Taxation

Income tax expense represents current and deferred tax expense/income.

Current taxation

The current tax expense 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 in the Azerbaijan Republic during the reporting period.

Deferred taxation

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 liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it

4 Summary of significant accounting policies (continued)

4.16 Taxation (continued)

Deferred taxation (continued)

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 the initial recognition 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 liabilities are offset and reported net on the statement of financial position if:

- The Company has a legally enforceable right to set off current income tax assets against current income tax liabilities: and
- Deferred tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The Azerbaijan Republic 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.

4.17 Significant management judgement in applying accounting policies

The preparation of financial statements requires management to make judgement, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Provisions against lease receivables

Inputs, assumptions and techniques used for ECL calculation – IFRS - 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Company while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk:

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Company compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Company's existing risk management processes.

The assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on below mentioned factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

4 Summary of significant accounting policies (continued)

4.17 Significant management judgement in applying accounting policies (continued)

Provision against lease receivables (continued)

1. We have established thresholds for significant increases in credit risk relative to initial recognition.
2. Additional qualitative reviews are performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. The determination of credit-impairment under IFRS 9 is similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios:

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information require significant judgment.

PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the historical trends and macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Management overlay is also used to align the macroeconomics factors with the current condition of portfolio based on best management estimate and information.

The estimation of expected credit losses in Stage1 and Stage 2 is a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios.

Definition of default:

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. Management has also adopted the IFRS 9 assumption and has considered 90 days past due receivables as an indicator of default.

Governance:

In addition to the existing risk management framework, the Company has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management and Economics and is responsible for reviewing and approving key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in the financial statements

Leases

In applying the classification of leases in IFRS 16, as a lessor, the management considers its leases as finance lease arrangements and as a lessee, the management considers its leases as operating lease. In some cases, the lease transaction is not always conclusive, and management uses judgment in determining whether the lease in an operating lease arrangement.

4 Summary of significant accounting policies (continued)

4.17 Significant management judgement in applying accounting policies (continued)

Recognition of deferred tax assets

The extent to which deferred tax liability can be recognised is based on an assessment of the probability of the Company's future taxable expenses against which the deductible temporary differences can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties (see note 4.16).

4.18 Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may substantially differ.

Impairment of non-financial assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets within the next financial year.

Provisions

Provisions are raised based on management's estimates from information available surrounding particular transactions. Prudence is exercised when estimating provisions so as not to materially overstate the Company's reported net income and understates its liabilities.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date, based on the expected utilisation of the assets to the Company. The carrying amounts are analysed in note 5. Actual results, however, may vary due to technical obsolescence, particularly relating to computers and office equipment.

Useful lives of intangible assets

Management reviews the useful lives of intangible assets at each reporting date, based on the expected utility of the assets to the Company.

Right of use assets and lease liability

Right of use assets and lease liability have been recorded as per IFRS 16 "Leases'. Management believes that the lease period used for calculation is based on facts and likely to conclude, as per contract. The interest rate estimation is also as per company's own borrowing portfolio and is market based. The carrying amounts of right-of-use asset analysed in note 5.

Notes to the financial statements (continued)
For the year ended December 31, 2021

5 Property, equipment and right-of use assets

2021	Office and computer equipment AZN	Motor vehicles AZN	Furniture fixture and others AZN	Other fixed assets AZN	Right-of-use asset AZN	Total AZN
Gross carrying amount						
Balance at January 1,	62,606	100,832	73,680	32,881	454,614	724,613
Additions	14,087	52,400	555	-	-	67,042
Disposals	(1,377)	(39,814)	-	-	-	(41,191)
Balance at December 31,	75,316	113,418	74,235	32,881	454,614	750,464
Accumulated depreciation						
Balance at January 1,	54,226	85,954	49,694	29,748	153,613	373,235
Charge for the year (note 16)	4,185	4,954	2,414	627	72,240	84,420
Disposals	(1,377)	(39,814)	-	-	-	(41,191)
Balance at December 31,	57,034	51,094	52,108	30,375	225,853	416,464
Net carrying amount at December 31, 2021	18,282	62,324	22,127	2,506	228,761	334,000

In the opinion of management, there has been no impairment in the carrying value of the Company's property and equipment as at December 31, 2021 (2020: Nil).

Notes to the financial statements (continued)
For the year ended December 31, 2021

5 Property, equipment and right-of-use assets (continued)

2020	Office and computer equipment AZN	Motor vehicles AZN	Furniture fixture and others AZN	Other fixed assets AZN	Right-of-use asset AZN	Total AZN
Gross carrying amount						
Balance at January 1,	59,206	82,614	73,680	32,881	320,272	568,653
Additions	3,400	18,218	-	-	134,342	155,960
Balance at December 31,	62,606	100,832	73,680	32,881	454,614	724,613
Accumulated depreciation						
Balance at January 1,	51,342	82,614	47,029	28,965	80,068	290,018
Charge for the year (note 16)	2,884	3,340	2,665	783	73,545	83,217
Balance at December 31,	54,226	85,954	49,694	29,748	153,613	373,235
Net carrying amount at December 31, 2020	8,380	14,878	23,986	3,133	301,001	351,378

6 Net investment in finance lease

	2021 AZN	2020 AZN
Net investment in finance lease	**12,443,617**	7,963,176
Less: allowance for impairment loss of net investment in finance lease	**(27,052)**	(57,543)
Net investment in finance lease, net of impairment loss	**12,416,565**	7,905,633

The collaterals against Net investment in finance lease are underlying assets given to lessees. The following table shows reconciliations of the allowance for impairment loss of net investment in finance lease as per IFRS 9: Financial instruments.

	2021 AZN	2020 AZN
Balance at January 1,	**57,543**	40,915
Reversal/(charge) for the year (note 17)	**(30,491)**	16,628
Balance at December 31,	**27,052**	57,543

	2021 AZN	2020 AZN
Current portion	**5,455,720**	4,247,047
Non-current portion	**6,960,845**	3,658,586
Total	**12,416,565**	7,905,633

	2021 AZN			
	Not later than one year	**Later than one and less than five years**	**Over five years**	**Total**
Lease rental receivable	7,263,849	8,098,840	-	15,362,689
Minimum lease payments	7,263,849	8,098,840	-	15,362,689
Finance charges for future periods	(1,781,077)	(1,137,995)	-	(2,919,072)
Less: allowance for impairment loss of net investment in finance lease	(27,052)	-	-	(27,052)
Present value of minimum lease payments	5,455,720	6,960,845	-	12,416,565

6 Net investment in finance lease (continued)

	2020 AZN			
	Not later than one year	Later than one and less than five years	Over five years	Total
Lease rental receivable	5,325,423	4,238,683	-	9,564,106
Minimum lease payments	5,325,423	4,238,683	-	9,564,106
Finance charges for future periods	(1,020,833)	(580,097)	-	(1,600,930)
Less: allowance for impairment loss of net investment in finance lease	(57,543)		-	(57,543)
Present value of minimum lease payments	4,247,047	3,658,586	-	7,905,633

7 Related parties

The Company in the normal course of business carries on business with other enterprises that fall within the definition of a related party contained in IFRS. These transactions are carried out in normal course of the business and are measured at exchange amounts, being the amounts agreed by both parties. The Company's related parties include its key management personnel, Parent Company and entities under common control as described below.

Loan to a related party

	2021 AZN	2020 AZN
Loan to a related party	**109,304**	127,658
Non-current portion	**88,520**	109,304
Current portion	**20,784**	18,354
Total	**109,304**	127,658

On March 13, 2020, the Company has sanctioned a loan amounting to AZN 140,000 to Chief Executive Officer of the Company at 12.5% interest rate per annum. The interest is paid on monthly basis. Repayment of the principal amount started in monthly instalment from April 30, 2020 with final payment on March 30, 2026.

Balances with related parties

Nature	**Relationship**	2021 AZN	2020 AZN
Cash and cash equivalents	Subsidiary of Parent Company	**29**	9
Loan to employee	Key management personnel	**109,304**	127,658
Borrowings including accrued interest	Subsidiary of Parent Company	**3,426,704**	3,427,021

7 Related parties (continued)

Details of related party transactions entered during the year and balances at year end are set out below:

Transactions with related parties

Nature	Relationship	2021 AZN	2020 AZN
Short-term employee benefits	Key management personnel	**274,982**	290,700
Interest income from loan/advance to employee	Key management personnel	**14,929**	14,890
Interest expense on borrowings	Subsidiary of Parent Company	**217,006**	263,127

8 Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities:

	Notes	2021 AZN	2020 AZN
Financial assets			
Financial assets measured at amortised cost:			
Non-current:			
Net investment in finance lease	6	**6,960,845**	3,658,586
Loan to a related party	7	**88,520**	109,304
Current:			
Net investment in finance lease	6	**5,455,720**	4,247,047
Loan to a related party	7	**20,784**	18,354
Other receivables	9	**471,771**	274,629
Cash and cash equivalents	10	**178,093**	49,350
		13,175,733	8,357,270
Financial liabilities			
Financial liabilities measured at amortised cost:			
Non-current:			
Borrowings	12	**2,096,178**	3,459,424
Lease liability	13	**193,783**	266,476
Current:			
Borrowings	12	**5,376,836**	19,306
Lease liability	13	**72,693**	63,876
Other current liabilities	14	**345,723**	309,113
		8,085,213	4,118,195

See note 4.8 for a description of the accounting policies for each category of financial instruments. A description of the Company's financial instrument risk, including risk management objectives and policies is given in note 20. Information relating to fair values is presented in note 21.

Notes to the financial statements (continued)
For the year ended December 31, 2021

9 Advances, prepayments and other receivables

	2021	2020
Financial assets	**AZN**	AZN
Accrued interest	**78,506**	55,845
Other receivables	**393,265**	218,784
	471,771	274,629
Non-financial assets		
Prepaid and advances	**14,932**	51,690
Balance at December 31,	**486,703**	326,319

10 Cash and cash equivalents

	2021	2020
	AZN	AZN
Current accounts with banks in local currency	**178,402**	49,685
Current accounts with banks in foreign currency	**47**	27
Deposits accounts*	**58**	58
	178,507	49,770
Less: allowance for impairment loss (Expected credit loss)	**(414)**	(420)
	178,093	49,350

*These represent deposits maintained with the banks carrying interest rate of 5% (2020: 5%) per annum.

The following table show reconciliations of the allowance for impairment loss as per IFRS 9: Financial instruments.

	2021	2020
	AZN	AZN
Balance at January 1,	**420**	187
(Reversal)/Charge of impairment loss for the year (note 17)	**(6)**	233
Balance at December 31,	**414**	420

Cash and cash equivalents for purpose of the statement of cash flows are given below.

	2021	2020
	AZN	AZN
Current accounts with banks in local currency	**178,402**	49,685
Current accounts with banks in foreign currency	**47**	27
Deposits accounts	**58**	58
	178,507	49,770

11 Share capital

The Company's authorized, issued and fully paid up share capital as at December 31, 2021 amounted to AZN 4,283,675 (December 31, 2020: AZN 4,283,675) and comprised of 4,283,675 (December 31, 2020: 4,283,675) ordinary shares with a par value of AZN 1 (December 31, 2020: AZN 1) each. The Company's issued share capital is held by the following shareholders:

	2021	2020	2021	2020
	%	%	AZN	AZN
MCB Bank Limited (Pakistan)	**99.94**	99.94	**4,281,105**	4,281,105
Mr. Ramal Jafarov (Individual person)	**0.06**	0.06	**2,570**	2,570
	100.00	100.00	**4,283,675**	4,283,675

12 Borrowings

Borrowings include the following financial liabilities:

Financial liabilities measured at amortised cost	2021	2020
	AZN	AZN
Subsidiary of the Parent Company	**3,400,000**	3,400,000
Governmental agency	**709,376**	78,730
Local banks	**3,363,638**	-
Total	**7,473,014**	3,478,730
Non-current portion	**2,096,178**	3,459,424
Current portion	**5,376,836**	19,306
Total	**7,473,014**	3,478,730

On October 31, 2017 the Company entered into a loan agreement with the Subsidiary of the Parent Company for a total amount of USD 2,000,000 at 3 month's LIBOR + 5.50% interest rate per annum plus the interest calculated will be grossed up for the applicable withholding tax applicable in the Republic of Azerbaijan to reach the total interest amount. The interest is paid on quarterly basis. The principal amount of loan was payable on November 7, 2019 which was extended till November 7, 2022.

On March 5, 2020 Company entered into loan agreement with Agrarian Credit and Development Agency (ACDA) under the Ministry of Agriculture. Agrarian Credit and Development Agency (ACDA) is also known as AKIA. This agreement is to facilitate customers in agriculture activities. The customer provides 20% of asset's value as advance payment to the Company. The ACDA provides subsidy which is 40% of custom value, the benefit of this amount is passed on to the customer. The remaining amount is also given as loan to the Company by ACDA. The Company buys assets, and it is leased out to customers. The company recovers this principal amount from customer and pays back to Agrarian Credit and Development Agency. Under this arrangement, the lessee is charged 7 % interest rate per annum for the lease and the Company is liable to pay 2 % interest per annum to AKIA, however, the interest to be paid by the lessee is ultimately borne by AKIA, therefore the net interest income of 5 % per annum is recorded by the Company as it bears the default risk.

The Company entered into a credit line agreement with a local bank equivalent to AZN 1,700,000, accordingly an amount of AZN 1,812,000 was withdrawn. The interest rate is 12.5% per annum. These loans will be repaid fully during the period from June 2023 till October 2023. The lease assets equivalent to 150% of loan outstanding and future interest are pledged against these loans.

12 Borrowings (continued)

The Company entered into a credit line agreement with a local bank of AZN 2,000,000, accordingly an amount of AZN 1,800,000 was withdrawn. The interest rate is 12.5% per annum. These loans will be repaid fully during the period from November 2023 till December 2023. The lease assets equivalent to 130% of loan outstanding are pledged against these loans.

Movement in borrowings is as follows:

	2021	2020
	AZN	AZN
Balance at January 1,	**3,478,730**	5,799,743
Proceeds from new borrowings	**6,930,542**	2,061,600
Repayment of borrowings	**(2,936,258)**	(4,382,613)
Balance at December 31,	**7,473,014**	3,478,730

13 Lease liability

The Company has obtained office building on rent and has recorded lease liability and right-of-use asset as per IFRS 16 'Leases'.

	2021	2020
	AZN	AZN
Non-current		
Lease liability	**193,783**	266,476
	193,783	266,476
Current		
Lease liability	**72,693**	63,876
	72,693	63,876
Total lease liability	**266,476**	330,352

	Within 1 year	**1-2 year**	**2-5 Years**	**Total**
	AZN	**AZN**	**AZN**	**AZN**
December 31, 2021				
Lease payments	**102,000**	**102,000**	**119,000**	**323,000**
Finance charges	**(29,307)**	**(19,273)**	**(7,944)**	**(56,524)**
Net present value	**72,693**	**82,727**	**111,056**	**266,476**

	Within 1 year	1-2 year	2-5 Years	Total
	AZN	AZN	AZN	AZN
December 31, 2020				
Lease payments	102,000	102,000	221,000	425,000
Finance charges	(38,124)	(29,307)	(27,217)	(94,648)
Net present value	63,876	72,693	193,783	330,352

Notes to the financial statements (continued)

For the year ended December 31, 2021

14 Other current liabilities

	2021	2020
Financial liabilities	**AZN**	AZN
Accrued liabilities	**299,565**	281,242
Accrued interest	**46,158**	27,871
	345,723	309,113
Non-financial liability		
Tax liabilities	**121,900**	70,602
Advances received from lessees	**148,120**	65,971
	270,020	136,573
Balance at December 31,	**615,743**	445,686

15 Operating expenses

	2021	2020
	AZN	AZN
Salaries and bonuses	**467,722**	427,349
Social security costs	**74,278**	66,144
Staff medical and compulsory insurance	**13,516**	10,938
	555,516	504,431

16 Administrative and general expenses

	2021	2020
	AZN	AZN
Depreciation (note 5)	**84,420**	83,217
Professional services fees	**34,955**	23,010
Vehicle running costs	**24,258**	7,983
Security expenses	**19,824**	19,824
Bank charges	**17,677**	16,035
Marketing expenses	**10,288**	938
Utilities	**10,140**	6,297
Communication expenses	**9,212**	7,957
Office supplies	**6,483**	3,601
State legal fees	**4,745**	2,699
Insurance expense	**3,654**	2,057
Amortisation expense	**1,574**	-
Repair and maintenance expenses	**446**	372
Taxes other than income tax	**131**	115
Other expenses	**17,645**	6,485
	245,452	180,590

17 Net reversal of impairment loss on financial assets

	2021	2020
	AZN	AZN
Reversal/(Charge) of impairment loss of net investment in finance lease (note 6)	30,491	(16,628)
Reversal/(Charge) of impairment loss of cash at banks (note 10)	6	(233)
	30,497	(16,861)

18 Taxation

Income tax expense

During the years ended December 31, 2021 and 2020, the corporate profit tax rate in Azerbaijan was equal to 20%. The tax rate is expected to remain the same in the following fiscal year.

	2021	2020
	AZN	AZN
Profit for the year before tax	824,952	615,546
Domestic effective tax rate	20%	20%
Expected tax expense	(164,990)	(123,109)
Adjustments for:		
Tax effect on non-deductible expenses	7,047	61,633
Income tax expense	(157,943)	(61,476)
Tax effect of temporary differences	(7,888)	(62,602)
Actual income tax expense	(165,831)	(124,078)

	2021	2020
	AZN	AZN
Income tax expense	(157,943)	(61,476)
Deferred tax expense	(7,888)	(62,602)
	(165,831)	(124,078)

Deferred tax

Deferred tax asset is measured at 20% (2020: 20%). The recoverability of deferred tax asset is dependent on future taxable profits. Deferred taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The movement in deferred tax asset recognised by the Company is as follows:

	2021	2020
	AZN	AZN
Balance at January 1,	14,622	77,224
Charged during the year	(7,888)	(62,602)
Balance at December 31,	6,734	14,622

18 Taxation (continued)

Deferred tax (continued)

The deferred tax assets as at reporting date is as follows:

	2021 AZN	2020 AZN
Deductible temporary differences	**33,668**	73,110
Total deductible temporary differences	**33,668**	73,110
Deferred tax asset at the statutory tax rate (20%)	**6,734**	14,622

19 Commitments, contingencies and operation risk

Lease commitments

The Company has no major outstanding lease commitments as at December 31, 2021 (2020: Nil).

Capital commitments

The Company has no major capital commitments as at December 31, 2021 (2020: Nil).

Contingent liabilities

Legal proceedings

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

The Company has filed two cases for the recovery of lease receivables and related amounts. The Sumgayit Appeal Court and Baku Commercial Court have ordered for the recovery of the amounts from the individuals and the guarantor. Currently the court decisions are at the stage of enforcement by bailiffs.

Business environment and Regulatory environment

The Company's main operations are conducted in the Azerbaijan Republic. Azerbaijan continues economic reforms and development of its legal, tax, and regulatory framework to strengthen and diversify the economy. In this respect, Azerbaijan endorsed strategic road maps for development of national economy and main economic sectors in 2016. Legislation including tax, currency fluctuation and customs legislations within the Azerbaijan Republic is changing rapidly.

The future economic direction of the Azerbaijan Republic is largely dependent upon the implementation of economic, financial, legislative and monetary measures undertaken by the government. The Company's financial position will continue to be affected by developments in Azerbaijan, however; the Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in the Azerbaijan Republic. The Company's management is closely watching these developments in current environment and taking appropriate necessary actions to support the sustainability and development of Company's business in foreseeable future. These 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.

19 Commitments, contingencies and operation risk (continued)

Business environment and Regulatory environment (continued)

Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretations'. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a treatment, based on management's judgment of the Company's business activities, was to be challenged by the tax authorities, the Company may be assessed for additional taxes, penalties and interest. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Management believes that its interpretation of the relevant legislation as at December 31, 2021 is appropriate and that the Company's tax, and currency positions will be sustained.

Due to rapid spread of COVID-19 pandemic in the early of 2020 many governments, including the Government of the Republic of Azerbaijan, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain area. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as measures for its consequences' minimization may influence the business of the entities in wide range of industries. Since March 2020 significant volatility in stock, currency and commodity markets exists, including decrease in crude oil prices and fluctuations in exchanges rates.

In order to prevent the widespread of COVID-19 pandemic, the Government of the Republic of Azerbaijan keeps taking comprehensive measures in all directions. As a response, in March 2020 the President of the Republic of Azerbaijan signed a decree for action plans to minimize the impact of the pandemic. In accordance with this decree, anti-crisis stimulus package of AZN 2,500,000 thousand is being developed to support individuals and various businesses in the country.

Also, the Central Bank of Azerbaijan (CBAR) continues its monetary policy to ensure stability of AZN exchange rates. The Company continues to assess pandemic effect and changing micro- and macroeconomic conditions on its activities, financial position and financial results. In the first half of 2020 the global economy was negatively impacted by coronavirus pandemic (COVID-19) spread. By June-July 2020 many countries have started to demonstrate signs of reduced spread of the pandemic. And the authorities started to gradually lift or ease restrictions. This tendency has supported a recovery in global financial and commodity markets. However, the peak of the pandemic in the countries was reached during the months of June-July 2020, and as a result the lock-down measures became even more stringent. These measures resulted in gradual reduction of novel coronavirus cases, and by August 2020 many governments, including the Government of the Republic of Azerbaijan started easing restrictions. In December 2020, second wave of COVID-19 hit the country. The Government of the Republic of Azerbaijan has again implemented few measures to control the pandemic.

The Company conducts all of its operations in the Republic of Azerbaijan. The economy of the Republic of Azerbaijan is particularly sensitive to oil and gas prices. During the recent years the Government of the Republic of Azerbaijan initiated major economic and social reforms to accelerate transition to a more balanced economy and reduce dependence on oil and gas sector.

In the year 2019 the CBAR continued easing monetary conditions while maintaining stability of the Azerbaijani manat. As a result, CBAR refinancing rate was reduced from 9.8% to 7.5% p.a. In addition, significant foreign currency sales were made to maintain stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period. During period of March-June 2020 the increasingly restrictive lock-down measures to combat COVID-19 in the country were significantly reducing economic activity and aggregate spending levels. Social distancing and quarantine measures were resulting in the closure of retail, transport, travel, catering, hotel, entertainment and many other businesses.

19 Commitments, contingencies and operation risk (continued)

Business environment and Regulatory environment (continued)

The Second Nagorno-Karabakh war

The Second Nagorno-Karabkh war started on 27 September 2020 and ended on 10 November 2020 with the signing of a ceasefire statement by the President of the Republic of Azerbaijan, the Prime Minister of the Republic of Armenia and the President of the Russian Federation. According to this statement, Azerbaijan regains control over the territories that had previously been occupied by Armenia. As of the date of the approval of these financial statements there are no major violations of the ceasefire statement.

Azerbaijan is getting ready to rebuild the liberated territories in accordance with modern urbanism and the region is entering a new period marked by construction, infrastructure work that is expected to reshape the outlook of the region. Management of the Company expects increase in nominal GDP levels of Azerbaijan in the foreseeable future which will be caused by large infrastructure projects on liberated lands as well as due to unblocking of economic and transport communications in the region.

20 Financial instrument risk

Risk management objectives and policies

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarised in note 8. The main types of risks are market risk, credit risk and liquidity risk. The Company's risk management is coordinated in close cooperation with the Company's directors and focuses on actively securing the Company's short to medium term cash flows by minimizing the potential adverse effects on the Company's performance through internal risk reports which analyse by degree and magnitude of risks. The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are given below.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Company is exposed to market risk through its use of financial instruments and specifically to currency risk and interest rate risk, which result from both its operating and investing activities.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Most of the Company's transactions are carried out in AZN. Exposures to currency exchange rates arise from the Company's overseas transactions, bank accounts and borrowings in foreign currencies, which are primarily denominated in US Dollar (USD).

Management of the Company does not enter future agreement to hedge its currency risk. However, these are monitored on regular basis and corrective measures initiated wherever required.

Notes to the financial statements (continued)
For the year ended December 31, 2021

20 Financial instrument risk (continued)

Risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk (continued)

Financial assets and financial liabilities are denominated in the following currencies:

	Notes	2021		
		AZN	USD	Total
Financial assets:				
Net investment in finance lease	6	12,416,565	-	12,416,565
Loan to a related party	7	109,304	-	109,304
Other receivables	9	471,771	-	471,771
Cash and cash equivalents	10	178,046	47	178,093
		13,175,686	47	13,175,733
Financial liabilities:				
Borrowings	12	4,073,014	3,400,000	7,473,014
Lease liability	13	266,476	-	266,476
Other current liabilities	14	319,019	26,704	345,723
		4,658,509	3,426,704	8,085,213
Open position		8,517,177	(3,426,657)	5,090,520

	Notes	2020		
		AZN	USD	Total
Financial assets:				
Net investment in finance lease	6	7,905,633	-	7,905,633
Loan to a related party	7	127,658	-	127,658
Other receivables	9	274,629	-	274,629
Cash and cash equivalents	10	49,323	27	49,350
		8,357,243	27	8,357,270
Financial liabilities:				
Borrowings	12	78,730	3,400,000	3,478,730
Lease liability	13	330,352	-	330,352
Other current liabilities	14	282,092	27,021	309,113
		691,174	3,427,021	4,118,195
Open position		7,666,069	(3,426,994)	4,239,075

20 Financial instrument risk (continued)

Risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk (continued)

The following table illustrates the sensitivity of profit/ (loss) before tax and equity in regard to the exchange rate of the AZN relative to the USD. It assumes a 10% weakening/strengthening of the AZN as at December 31, 2021 (2020: weakening/strengthening 10%). The sensitivity analysis at each reporting date is as follows:

	Profit/(loss) before tax		Equity	
	2021	2020	**2021**	2020
	AZN	AZN	**AZN**	AZN
AZN weakening 10% / 10%	**(342,666)**	(342,699)	**(274,133)**	(274,159)
AZN strengthening 10% / 10%	**342,666**	342,699	**274,133**	274,159

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Leases are generally granted at a rate of interest fixed for the duration of the lease and the majority of borrowings are at variable interest rates. Management of the Company does not enter future agreement to hedge its interest rate risk. However, these are monitored on regular basis and corrective measures initiated wherever required.

Borrowings on floating interest rates are as follows:

	2021	2020
	AZN	AZN
Borrowings	**3,400,000**	3,400,000

The following table illustrates the sensitivity of variable rate borrowings to a reasonably possible change in interest rates of ±1% (2020: ±1%). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables held constant.

	Profit/(loss) before tax		Equity	
	AZN	**AZN**	**AZN**	**AZN**
	+1%	**-1%**	**+1%**	**-1%**
2021	**(34,000)**	34,000	**(27,200)**	27,200
2020	**(34,000)**	34,000	**(27,200)**	27,200

20 Financial instrument risk (continued)

Risk management objectives and policies (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to this risk for various financial instruments, for example by granting credit terms to customers. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	2021	2020
Classes of financial assets - carrying amounts:	**AZN**	AZN
Net investment in finance lease (note 6)	**12,416,565**	7,905,633
Loan to a related party (note 7)	**109,304**	127,658
Other receivables (note 9)	**471,771**	274,629
Cash and cash equivalents (note 10)	**178,093**	49,350
Total carrying amount	**13,175,733**	8,357,270

The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties. To manage its risk exposure, the Company places its cash with reputable banks.

The Credit Policy of the Company, which was approved by the Management and Supervisory Board, sets forth principles and rules of financial leasing activity, as well as establishing main indicators of procedures with regard to the activity, mitigating the Company's risks, determining profitability and serving as guidance for all employees while they perform their duties.

There are certain limits set for the lease portfolio in order to ensure its diversification and minimization of possible credit risks. These limits are, as follows:

- Limits for business portfolio;
- Limits by sectors of economy; and
- Concentration limits

The limits are developed and revised by the management on an annual basis. In case of significant change in the market environment, the limits may also be reviewed. A proposal for limits change is provided firstly to the Credit Committee and next to the Management Board for approval and then it is approved by Supervisory Board. The Leasing Operations department controls maintenance of all limits on a regular basis and some of them (maximum exposure to a single borrower or group of related borrowers, maximum exposure to related parties) are controlled before new lease issue.

The Credit Policy of the Company regulates the authorities and responsibilities of each body of the Company involved in lending process and determine the limits for credit granting approval, the rules for monitoring of leases, and lending procedures etc. The Company's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the statement of financial position. The Credit Committee of the Company ("CC") is the collective body which operates and reports to the Management Board. The overall role of CC is to control and manage all leasing operations approved in the framework of strategic and business plan of the Company. Credit Committee controls procedures and operations of leasing arrangements in accordance with the approved Credit Policy of the Company.

20 Financial instrument risk (continued)

Risk management objectives and policies (continued)

Credit risk (continued)

The Credit Committee is comprised of senior representatives from Finance, Risk Management and Economics and is responsible for reviewing and approving key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in the financial statements.

Liquidity risk

Liquidity risk also referred to as funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Company maintains sufficient cash balances and monitors liquidity requirements on a regular basis and the management ensures that sufficient funds are available to meet any future commitments. The Company is also well supported by its related parties for the funding of long-term liquidity needs. Financial liabilities as disclosed in note 8 are non-interest bearing and have contractual maturity dates of less than twelve months from the reporting date except disclosed below:

	Interest rate	Within 1 year	1 to 5 years	Over 5 years	Total
December 31, 2021		**AZN**	**AZN**	**AZN**	**AZN**
Subsidiary of the Parent Company	3 months Libor+5.5% per annum	**3,400,000**	-	-	**3,400,000**
Local banks	12.5%	**1,747,328**	**1,616,310**	-	**3,363,638**
Local government entity	5% per annum	**229,510**	**479,866**	-	**709,376**
Lease liability	13% per annum	**72,693**	**193,783**	-	**266,476**
		5,449,531	**2,289,959**	-	**7,739,490**

	Interest rate	Within 1 year	1 to 5 years	Over 5 years	Total
December 31, 2020		**AZN**	**AZN**	**AZN**	**AZN**
Subsidiary of the Parent Company	3 months Libor+5.5% per annum	-	3,400,000	-	3,400,000
Local government entity	5% per annum	19,306	59,424	-	78,730
Lease liability	13% per annum	63,876	266,476	-	330,352
		83,182	3,725,900	-	3,809,082

The above amounts reflect the contractual cash flows, which may differ to the carrying values of the liabilities at the reporting date. Balances due within one year equal their carrying balances as the impact of discounting is not significant.

21 Fair value and fair value hierarchy

Assets and liabilities measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: 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: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All the financial assets and liabilities of the Company are carried at amortised cost and none of the non-financial assets and liabilities have been fair valued. Therefore, the fair value hierarchy disclosure which requires a three-level category of fair value is not disclosed because it does not have significant disclosure impact to the financial statements.

22 Capital management policies and procedures

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern; and
- to provide an adequate return to shareholders

by pricing products/services commensurately with the level of risk.

The Company monitors capital based on the carrying amount of equity less cash and cash equivalents as presented on the face of the statement of financial position. The Company sets the amount of capital in proportion to its overall financing structure.

The Company manages the capital structure and adjusts 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 adjust the amounts of dividends paid to shareholders and return capital to shareholders. As the Company has obtained NBCO license, the externally imposed capital requirement to be maintained is minimum AZN 300,000. Capital for the reporting periods are summarised as follows:

	2021	2020
	AZN	AZN
Total equity	**5,179,313**	4,520,192
Cash and cash equivalents (note 10)	**(178,093)**	(49,350)
Capital	**5,001,220**	4,470,842
Total equity	**5,179,313**	4,520,192
Borrowings (note 12)	**7,473,014**	3,478,730
Lease liability (note 13)	**266,476**	330,352
Overall financing	**12,918,803**	8,329,274
Capital-to-overall financing ratio	**39%**	54%

23 Post reporting date events and impact of Covid-19

The spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for certain periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

Management of the Company is closely observing the development of situation around outbreak of COVID-19 (Corona virus) and is taking all necessary precautions. Management believes that this will have no significant effect on Company's operations. The duration and impact of the COVID-19 pandemic remains unclear at this time. Due to the changing circumstances, it is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the Company's financial position and results of the Company for future periods. However, the Company survived very well during the year 2021 and entered into new lease agreements and increased its profitability.

The strict special quarantine measures introduced by the Azerbaijani Government to combat the COVID-19 outbreak, such as travel restrictions, quarantines, closure of business and other avenue, lockdowns of certain areas throughout the country ceased on 18 January 2021. Later on, again special quarantine measures were introduced till June 2021 and according to the decision of the Cabinet of Ministers No. 336, was then extended from November 1, 2021 to January 1, 2022 in the country. Based on the order of Cabinet of Ministers on "Vaccination Strategy covering 2021-2022 years" dated 16 January 2021, gradual vaccination of Azerbaijani population has started.