# “MCB LEASING” CLOSED JOINT- STOCK COMPANY

**Financial Statements and**
**Independent Auditors’ Report**
For the Year Ended 31 December 2011

# "MCB LEASING" CJSC

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## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2, 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 MCB Leasing (the "Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company at 31 December 2011, 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 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 2011 were authorized for issue on 27 January 2012 by the Management Board.

**On behalf of the Management:**

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| | |
|---|---|
| **Mr. Ramal Ceferov** | **Mr. Sibt-e-Hassan Taqi** |
| **Chief Executive Officer** | **Chief Finance Officer** |
| 27 January 2012 | 27 January 2012 |
| Baku, Azerbaijan Republic | Baku, Azerbaijan Republic |

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Closed Joint Stock Company MCB Leasing:

*Report on the Financial Statements*

We have audited the accompanying financial statements of Closed Joint Stock Company MCB Leasing, which comprise the statement of financial position as at 31 December 2011, and the income statement, statements of changes in equity and cash flows for the year ended 31 December 2011, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Closed Joint Stock Company MCB Leasing as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Nexia Euro Audit

Azərbaycan Respublikası EURO AUDIT MMC EuroAudit member of Nexia International Azerbaijan Republic EURO AUDIT LLC

27 January 2012

Baku, Azerbaijan Republic

# "MCB LEASING" CJSC

## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2011
*(In Azerbaijani manats)*

| | Note | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 4 | 242,242 | 60,641 |
| Advances, prepayments and other current assets | 5 | 51,291 | 62,780 |
| Net investment in finance lease | 6 | 1,720,037 | 363,830 |
| | | **2,013,570** | **487,251** |
| **Non-current assets** | | | |
| Net investment in finance lease | 6 | 2,147,794 | 814,163 |
| Property and equipment | 7 | 139,354 | 167,256 |
| Deferred tax asset | 14 | 118,421 | 88,567 |
| | | **2,405,569** | **1,069,986** |
| **Total assets** | | **4,419,139** | **1,557,237** |
| | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Current portion of secured loans | 8 | 1,048,512 | - |
| Other current liabilities | 9 | 140,423 | 26,031 |
| | | **1,188,935** | **26,031** |
| **Long-term loans** | | | |
| Secured loans | 8 | 2,883,988 | 1,043,254 |
| | | **2,883,988** | **1,043,254** |
| **Total liabilities** | | **4,072,923** | **1,069,285** |
| | | | |
| **Net assets** | | **346,216** | **487,952** |
| | | | |
| **Represented by:** | | | |
| Share capital | 10 | 842,105 | 842,105 |
| Accumulated loss | | (495,889) | (354,153) |
| **Total equity** | | **346,216** | **487,952** |
| | | | |
| **Total liabilities and equity** | | **4,419,139** | **1,557,237** |
| | | | |
| **Contingencies and commitments** | 11 | **-** | **-** |

**On behalf of the Management:**

**Mr. Ramal Ceferov**
**Chief Executive Officer**

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**Mr. Sibt-e-Hassan Taqi**
**Chief Finance Officer**

27 January 2012
Baku, Azerbaijan Republic

27 January 2012
Baku, Azerbaijan Republic

The notes on pages 7-21 form an integral part of these financial statements. The Independent Auditors' Report is on page 2.



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# "MCB LEASING" CJSC

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2011
*(In Azerbaijani manats)*

| | Note | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|---|
| Interest income from finance leases | | 558,106 | 12,165 |
| Interest expense | | (142,573) | (2,834) |
| **Net interest income** | | **415,533** | **9,331** |
| Fee, commission and brokerage income | | 41,414 | 13,906 |
| Net gain on foreign exchange translation | | 27,213 | 4,403 |
| Other income | | 1,983 | 1,664 |
| **Operating income** | | **486,143** | **29,304** |
| Operating expenses | 12 | (393,868) | (331,103) |
| Administrative expenses | 13 | (263,865) | (140,921) |
| **Loss before income tax** | | **(171,590)** | **(442,720)** |
| Income tax benefit | 14 | 29,854 | 88,567 |
| **Net loss for the year** | | **(141,736)** | **(354,153)** |
| Other comprehensive income: | | - | - |
| **Total comprehensive loss for the year** | | **(141,736)** | **(354,153)** |

**On behalf of the Management:**

**Mr. Ramal Ceferov**
**Chief Executive Officer**

27 January 2012
Baku, Azerbaijan Republic

**Mr. Sibt-e-Hassan Taqi**
**Chief Finance Officer**

27 January 2012
Baku, Azerbaijan Republic

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The notes on pages 7-21 form an integral part of these financial statements. The Independent Auditors' Report is on page 2.



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# "MCB LEASING" CJSC

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2011
*(In Azerbaijani manats)*

| | Share capital | Accumulated loss | Total equity |
|---|---|---|---|
| **Balance as at 31 December 2009** | **4,000** | **-** | **4,000** |
| Shares issued | 838,105 | - | 838,105 |
| Total comprehensive loss for the year | - | (354,153) | (354,153) |
| **Balance as at 31 December 2010** | **842,105** | **(354,153)** | **487,952** |
| Total comprehensive loss for the year | - | (141,736) | (141,736) |
| **Balance as at 31 December 2011** | **842,105** | **(495,889)** | **346,216** |

**On behalf of the Management:**

**Mr. Ramal Ceferov**
**Chief Executive Officer**

27 January 2012
Baku, Azerbaijan Republic

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**Mr. Sibt-e-Hassan Taqi**
**Chief Finance Officer**

27 January 2012
Baku, Azerbaijan Republic

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## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2011
*(In Azerbaijani Manats)*

| | Note | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before income tax | | (171,590) | (442,720) |
| Adjustments for non-cash income and expenses: | | | |
| Depreciation expense | 13 | 29,206 | 20,323 |
| Net gain on foreign exchange operations | | (27,213) | (4,403) |
| | | **(169,597)** | **(426,800)** |
| Changes in working capital: | | | |
| Net investment in finance lease | | (2,689,838) | (1,177,993) |
| Advances, prepayments and other current assets | | 11,489 | (62,780) |
| Other current liabilities | | 114,392 | 26,031 |
| | | **(2,733,554)** | **(1,641,542)** |
| Income tax paid | | - | - |
| **Net cash from operating activities** | | **(2,733,554)** | **(1,641,542)** |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | 7 | (1,304) | (187,579) |
| **Net cash used in investing activities** | | **(1,304)** | **(187,579)** |
| **Cash flows from financing activities** | | | |
| Proceeds from shares issue | | - | 838,105 |
| Proceeds from secured loans | | 2,916,459 | 1,047,657 |
| **Net cash used in financing activities** | | **2,916,459** | **1,885,762** |
| **Net increase in cash and cash equivalents** | | **181,601** | **56,641** |
| Cash and cash equivalents at beginning of year | 4 | 60,641 | 4,000 |
| **Cash and cash equivalents at end of year** | 4 | **242,242** | **60,641** |

**On behalf of the Management:**

**Mr. Ramal Ceferov**
**Chief Executive Officer**

27 January 2012
Baku, Azerbaijan Republic

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**Mr. Sibt-e-Hassan Taqi**
**Chief Finance Officer**

27 January 2012
Baku, Azerbaijan Republic

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## 1. INTRODUCTION

"MCB Leasing" CJSC ("Company") was incorporated and domiciled 16 October 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 registered under the registration number 1701045991 dated 15 October 2009 at the Ministry of Taxes of the Republic of Azerbaijan.

The Company's principal business activity is providing finance lease within the Republic of Azerbaijan. The company leases various types of industrial equipment, equipment used in medicine, public transports and real estate. In addition, the Company leases cars, trucks and rail cars. The company purchases leasing assets from suppliers in the Republic of Azerbaijan and abroad.

The Company's registered address is: 49B/1054, Tbilisi Av., Yasamal, Baku, Azerbaijan, AZ1065.

MCB Bank Limited (Pakistan) owns 95% of the issued share capital and is the parent company. As at 31 December 2011 and 2010 the following shareholders owned the share capital of the Company:

| | 31 December 2011 Ownership interest, % | 31 December 2010 Ownership interest, % |
|---|---|---|
| MCB Bank Limited (Pakistan) | 95 | 95 |
| Mr. Namig Safarov Rahib (Individual person) | 5 | 5 |
| **Total** | **100** | **100** |

## 2. BASIS OF PREPARATION

**2.1 Basis of preparation.** These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorized as at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied.

The Company maintains its accounting records in accordance with Azerbaijan law, which in majority complies with IFRS. These financial statements have been prepared from the Azerbaijan statutory accounting records and have been adjusted to conform to IFRS. Certain corresponding figures have been reclassified to facilitate a more comparative basis of the financial statements based on current year presentation.

**2.2 The functional and presentation currency.** Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the 'functional currency').

The financial statements are presented in Azerbaijani Manats ("AZN"), which is the Company's both functional and presentation currency.

**2.3. Critical accounting estimates and judgments.** The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in the application of accounting policies are as follows:

**a) Taxation.** In making the estimates for income taxes currently payable by the Company, the management considers the current income tax laws.

**b) Depreciation, amortization and revaluation of operating fixed assets**. In making estimates of the depreciation or amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Company.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Changes in accounting policy and disclosures.

*(a) New and amended standards adopted by the Company.*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Company.

*(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted.*

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2012.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

**3.2 Recognition and measurement of financial instruments.** The Company recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability.

*(a) Recognition and measurement of lease.*

Leases are accounted for in accordance with IAS 17 and IFRIC 4.

When assets are leased out under finance lease, the present value of the lease payments is recognised as a receivable.

*(b) 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.

*(c) 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.

*(d) Impairment of lease receivables.*

An allowance for impairment is established if there is objective evidence that the Company will not be able to collect the amount due according to the original contractual terms of the lease. The amount of the provision is the difference between the carrying amount at the time the lease is considered doubtful and the recoverable amount, being the present value of expected proceeds arising from sale of the leased assets discounted at the original effective interest rate of the lease.

The provision amount also covers losses when there is objective evidence that probable losses are present in components of the lease portfolio at the reporting date. They have been estimated based on the future specific losses inherent in the leases and upon historical patterns of losses in each component and the economic climate in which the clients operate.

**3.3 Cash and cash equivalents.** Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash.

**3.4 Property and equipment.** Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation on all operating fixed assets is charged using the diminishing balance method except for vehicles and computers, which are depreciated using the straight line method in accordance with the rates below and after taking into account residual value, if any. 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 following rates:

| | |
|---|---|
| Furniture and fixtures | 10% |
| Computer and office equipment | 20% |
| Vehicles | 20% |
| Other fixed assets | 20% |

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in other administrative and operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

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 on sale of property and equipment are credited to the profit and loss account currently, except that the related surplus on revaluation of is transferred directly to retained earnings. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account.

**3.5 Foreign currencies.** Transactions in foreign currencies are translated to AZN at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in AZN terms at the rates of exchange prevailing at the reporting date. Translation gains and losses are included in the profit and loss account.

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

| 31 December 2011 | 31 December 2010 |
|---|---|
| USD 1 = AZN 0.7865 | USD 1 = AZN 0. 7979 |
| EUR 1 = AZN 1.0178 | EUR 1 = AZN 1. 0560 |
| GBP 1 = AZN 1.2123 | GBP 1 = AZN 1. 2377 |
| RUR 1 = AZN 0.0245 | RUR 1 = AZN 0. 0263 |

**3.6 Revenue recognition.** 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.

**3.7 Prepayments.** Prepayments are stated at their nominal value.

**3.8 Secured loans.** Secured loans are recognized initially at fair value, net of transaction cost incurred. In subsequent periods, secured loans are stated at amortized cost using the effective interest method; any difference between the fair value of the proceeds (net of transaction cost) and the redemption amount is recognized as interest expense over the period of the secured loans.

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.

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

**3.10 Share capital.** Contributions to share capital are recognized at cost. 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 the International Accounting Standard 10 "Events after the Reporting Period" ("IAS 10") and disclosed accordingly.

**3.11 Current and deferred income tax.** The tax expense for the period comprises current and deferred tax. Tax is recognized in income statement, except that a change attributable to an item of income or expense recognized as other comprehensive income is also recognized directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted in Azerbaijan Republic.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits of the Company. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

| | **31 December 2011** | **31 December 2010** |
|---|---|---|
| Currents accounts with banks in local currency | 216,040 | 47,663 |
| Currents accounts with banks in foreign currency | 25,742 | 12,518 |
| Cash at hand | 460 | 460 |
| **Total cash and cash equivalents** | **242,242** | **60,641** |

Current accounts with banks in foreign currency include the amount of AZN 25,724 (2010: AZN 1,012) which is deposited on escrow account.

Amounts of cash and cash equivalents as at 31 December 2011 and 2010 as disclosed above are included into the statement of cash flows.

## 5. ADVANCES, PREPAYMENTS AND OTHER CURRENT ASSETS

Advances, prepayments and other current assets comprise:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Receivable from customers | 37,645 | - |
| Advances to employees | 7,650 | 7,140 |
| Prepaid expenses | 5,996 | 21,170 |
| Advance to lease supplier | - | 7,200 |
| Reimbursement receivable | - | 27,270 |
| **Total advances, prepayments and other current assets** | **51,291** | **62,780** |

## 6. NET INVESTMENT IN FINANCE LEASE

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Not later than one year | Later than one and less than five year | Over five year | Total |
| Lease rental receivable | 2,329,352 | 2,463,058 | 20,008 | 4,812,418 |
| Minimum lease payments | 2,329,352 | 2,463,058 | 20,008 | 4,812,418 |
| Finance charges for future period | (609,315) | (334,463) | (809) | (944,587) |
| **Present value of minimum lease payments** | **1,720,037** | **2,128,595** | **19,199** | **3,867,831** |

| | 31 December 2010 | | | |
|---|---|---|---|---|
| | Not later than one year | Later than one and less than five year | Over five year | Total |
| Lease rental receivable | 566,619 | 977,901 | - | 1,544,520 |
| Minimum lease payments | 566,619 | 977,901 | - | 1,544,520 |
| Finance charges for future period | (202,789) | (163,738) | - | (366,527) |
| **Present value of minimum lease payments** | **363,830** | **814,163** | **-** | **1,177,993** |

## 7. PROPERTY AND EQUIPMENT

Property and equipment comprise:

| | Computer and office equipment | Vehicles | Furniture and fixtures | Other fixed assets | Total |
|---|---|---|---|---|---|
| **Cost at 31 December 2009** | - | - | - | - | - |
| Additions | 42,542 | 39,814 | 72,342 | 32,881 | 187,579 |
| **Cost at 31 December 2010** | **42,542** | **39,814** | **72,342** | **32,881** | **187,579** |
| Additions | 330 | - | 974 | - | 1,304 |
| **Cost at 31 December 2011** | **42,872** | **39,814** | **73,316** | **32,881** | **188,883** |
| **Accumulated depreciation at 31 December 2009** | **-** | **-** | **-** | **-** | **-** |
| Charge for the year | 5,313 | 6,311 | 4,999 | 3,700 | 20,323 |
| **Accumulated depreciation at 31 December 2010** | **5,313** | **6,311** | **4,999** | **3,700** | **20,323** |
| Charge for the year | 8,575 | 7,963 | 6,832 | 5,836 | 29,206 |
| **Accumulated depreciation at 31 December 2011** | **13,888** | **14,274** | **11,831** | **9,536** | **49,529** |
| **NBV at 31 December 2010** | **37,229** | **33,503** | **67,343** | **29,181** | **167,256** |
| **NBV at 31 December 2011** | **28,984** | **25,540** | **61,485** | **23,345** | **139,354** |

None of the Company's operating fixed assets have been pledged as a collateral against bank secured loans outstanding as at 31 December 2011 and 2010.

## 8. SECURED LOANS

Secured loans comprise:

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | **Rate of interest per annum** | **Amount** | **Rate of interest per annum** | **Amount** |
| MCB Bank Ltd. Bahrain | 3 month's LIBOR + 4% | 1,573,000 | 3 month's LIBOR + 4% | 1,043,254 |
| MCB Bank Ltd. Bahrain | 3 month's LIBOR + 4.5% | 2,359,500 | - | - |
| **Total secured loans** | | **3,932,500** | | **1,043,254** |

On 8 November 2010 the Company entered into loan agreement with its parent MCB Bank Limited for a total of USD 2,000,000 at 3 month's LIBOR + 4.0% interest rate per annum which is repayable on 8 November 2013. Principal repayments are entitled to 18 months grace period and will be paid by equal installments starting from 9 May 2012. Interest payments are scheduled on a quarterly basis from the inception of loan. Loan is secured against current assets and leased equipments of the Company.

On 6 April 2011 the Company entered into loan agreement with its parent MCB Bank Limited for a total of USD 3,000,000 at 3 month's LIBOR + 4.5% interest rate per annum which is repayable on 6 April 2014. Principal repayments are entitled to 18 months grace period and will be paid by equal installments starting from 11 October 2012. Interest payments are scheduled on a quarterly basis from the inception of loan. Loan is secured against current assets and leased equipments of the Company.

Total interest expense accrued on above loans during the years ended 31 December 2011 and 2010 amounted to AZN 142,573 and AZN 2,834, respectively.

## 9. OTHER CURRENT LIABILITIES

Other current liabilities comprise:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Advances received from lessees | 58,227 | 7,200 |
| Payable to suppliers | 39,005 | 2,314 |
| Accrued expenses | 38,101 | 11,229 |
| Other payables | 5,090 | 5,288 |
| **Total other current liabilities** | **140,423** | **26,031** |

## 10. SHARE CAPITAL

As of 31 December 2011 the Company's authorized, issued and fully paid up share capital amounted to AZN 842,105 and comprised 842,105 ordinary shares with a par value of AZN 1 (31 December 2010: AZN 842,105 comprised 842,105 ordinary shares). Each share entitles one vote to the shareholder.

## 11. CONTINGENCIES AND COMMITMENTS

**Capital expenditure commitments.** At 31 December 2011 and 2010 the Company had no significant contractual capital expenditure commitments in respect of property and equipment, or in any other areas.

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

## 12. OPERATING EXPENSES

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| Salary and bonuses | 317,684 | 265,051 |
| Social security costs | 69,891 | 58,311 |
| Staff medical insurance | 4,660 | 7,741 |
| Other staff expenses | 1,633 | - |
| **Total operating expenses** | **393,868** | **331,103** |

## 13. ADMINISTRATIVE EXPENSES

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| Office rent | 126,057 | 44,960 |
| Depreciation | 29,206 | 20,323 |
| Security | 27,600 | 16,369 |
| State legal fees | 13,164 | 1,300 |
| Professional services fees | 11,681 | 11,733 |
| Bank charges | 11,269 | 5,717 |
| Communication | 7,857 | 6,617 |
| Marketing and advertisement | 7,309 | 8,294 |
| Utilities | 6,851 | 2,446 |
| Audit fee | 6,400 | 6,400 |
| Vehicle running costs | 4,778 | 2,669 |
| Stationary & printing | 3,441 | 3,794 |
| Office supplies | 2,066 | 1,756 |
| Vehicle insurance | 1,328 | 1,432 |
| Taxes other than income tax | 1,200 | 620 |
| Repair and maintenance | 733 | 3,275 |
| Other expenses | 2,925 | 3,216 |
| **Total administrative expenses** | **263,865** | **140,921** |

## 14. INCOME TAXES

During the year ended 31 December 2011 and 2010, Azerbaijan's tax rate for corporations' profits was 20%. The tax rate will remain the same for the following fiscal year.

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 2011 and 2010 comprise:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Tax losses of 2011 carried forward | 128,419 | - |
| Tax losses of 2010 carried forward | 477,384 | 442,835 |
| **Total unused tax losses** | **605,803** | **442,835** |
| Tax depreciation | (13,702) | - |
| **Total taxable temporary differences** | **(13,702)** | **-** |
| Net deferred deductible temporary differences | 592,101 | 442,835 |
| Net deferred tax asset at the statutory tax rate (20%) | 118,421 | 88,567 |
| **Net deferred tax asset** | **118,421** | **88,567** |

Relationships between tax expenses and accounting profit for the years ended 31 December 2011 and 2010 are explained as follows:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| Loss before income tax | (171,590) | (442,720) |
| Tax at the statutory tax rate 20% | 34,318 | 88,544 |
| Tax effect of permanent differences | 621 | 23 |
| Unrecognized deferred tax assets | (5,085) | - |
| **Income tax benefit** | **29,854** | **88,567** |
| Current income tax expense | - | - |
| Deferred income tax benefit | 29,854 | 88,567 |
| **Income tax benefit** | **29,854** | **88,567** |

The movement of deferred income tax asset during the years ended 31 December 2011 and 2010 is as follows:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| Beginning of the period | 88,567 | - |
| Change in the deferred tax assets for the period charged to income statement | 29,854 | 88,567 |
| **End of the period** | **118,421** | **88,567** |

## 15. FINANCIAL RISK MANAGEMENT

The risk management function within the Company is carried out in respect of financial risks (credit, market, 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. Exposure to credit risk arises as a result of the Company's finance lease transactions with counterparties giving rise to financial assets.

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 impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit Committee. 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. CC controls procedures and operations of leasing arrangements in accordance with the approved Credit Policy of the Company.

**Currency risk**

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers.

Tables below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2011 and 2010. Included in the table are the Company's financial instruments at carrying amounts, categorised by currency:

| | 31 December 2011 | | |
|---|---|---|---|
| | **AZN** | **USD** | **Total** |
| **Financial assets:** | | | |
| Cash and cash equivalents | 216,500 | 25,742 | 242,242 |
| Net investment in finance lease | 3,867,831 | - | 3,867,831 |
| **Total financial assets** | **4,084,331** | **25,742** | **4,110,073** |
| **Financial liabilities:** | | | |
| Secured loans | - | 3,932,500 | 3,932,500 |
| Other current liabilities | 107,818 | 32,605 | 140,423 |
| **Total financial liabilities** | **107,818** | **3,965,105** | **4,072,923** |
| **OPEN POSITION** | **3,976,513** | **(3,939,363)** | **37,150** |

| | 31 December 2010 | | |
|---|---|---|---|
| | **AZN** | **USD** | **Total** |
| **Financial assets:** | | | |
| Cash and cash equivalents | 48,123 | 12,518 | 60,641 |
| Net investment in finance lease | 1,177,993 | - | 1,177,993 |
| **Total financial assets** | **1,226,116** | **12,518** | **1,238,634** |
| **Financial liabilities:** | | | |
| Secured loans | - | 1,043,254 | 1,043,254 |
| Other current liabilities | 23,198 | 2,833 | 26,031 |
| **Total financial liabilities** | **23,198** | **1,046,087** | **1,069,285** |
| **OPEN POSITION** | **1,202,918** | **(1,033,569)** | **169,349** |

## 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.

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The Management Board monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments, the Company normally seeks to match its interest rate positions. At present, the Company manages its interest rate risk by matching, where possible, its maturity and/or repricing positions. In addition, the Company's monthly interest margins are continually reviewed in order to reprice its assets when deemed appropriate.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

| | 31 December 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Up to 1 month** | **1 month to 3 months** | **3 months to 1 year** | **1 year to 5 years** | **Over 5 years** | **Non-interest bearing** | **Total** |
| **Financial assets:** | | | | | | | |
| Cash and cash equivalents | - | - | - | - | - | 242,242 | 242,242 |
| Net investment in finance lease | 135,728 | 278,302 | 1,306,007 | 2,128,595 | 19,199 | - | 3,867,831 |
| **Total financial assets** | **135,728** | **278,302** | **1,306,007** | **2,128,595** | **19,199** | **242,242** | **4,110,073** |
| **Financial liabilities:** | | | | | | | |
| Secured loans | - | - | 1,011,214 | 2,921,286 | - | - | 3,932,500 |
| Other current liabilities | - | - | - | - | - | 140,423 | 140,423 |
| **Total financial liabilities** | **-** | **-** | **1,011,214** | **2,921,286** | **-** | **140,423** | **4,072,923** |
| **Total interest repricing gap** | **135,728** | **278,302** | **294,793** | **(792,691)** | **19,199** | **101,819** | **37,150** |

| | 31 December 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Up to 1 month** | **1 month to 3 months** | **3 months to 1 year** | **1 year to 5 years** | **Over 5 years** | **Non-interest bearing** | **Total** |
| **Financial assets:** | | | | | | | |
| Cash and cash equivalents | - | - | - | - | - | 60,641 | 60,641 |
| Net investment in finance lease | 26,476 | 66,189 | 271,166 | 814,162 | - | - | 1,177,993 |
| **Total financial assets** | **26,476** | **66,189** | **271,166** | **814,162** | **-** | **60,641** | **1,238,634** |
| **Financial liabilities:** | | | | | | | |
| Secured loans | - | - | - | 1,043,254 | - | - | 1,043,254 |
| Other current liabilities | - | - | - | - | - | 26,031 | 26,031 |
| **Total financial liabilities** | **-** | **-** | **-** | **1,043,254** | **-** | **26,031** | **1,069,285** |
| **Total interest repricing gap** | **26,476** | **66,189** | **271,166** | **(229,092)** | **-** | **34,610** | **169,349** |

## Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

The table below presents the cash flows payable by the Company under non-derivative financial liabilities by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flow. Therefore, they does not reconcile to the discounted cash flows in the statement of financial position. IFRS 7 does not require such reconciliation.

| | 31 December 2011 | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
| **Financial liabilities:** | | | | | | |
| Secured loans | 16,302 | 31,553 | 1,139,714 | 3,007,432 | - | 4,195,001 |
| Other current liabilities | 7,204 | 35,569 | 37,298 | - | - | 80,071 |
| **Total undiscounted financial liabilities** | **23,506** | **67,122** | **1,177,012** | **3,007,432** | **-** | **4,275,072** |

| | 31 December 2010 | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
| **Financial liabilities:** | | | | | | |
| Secured loans | 3,741 | 7,482 | 33,668 | 1,124,054 | - | 1,168,945 |
| Other current liabilities | 10,710 | 903 | 9,750 | - | - | 21,363 |
| **Total undiscounted financial liabilities** | **14,451** | **8,385** | **43,418** | **1,124,054** | **-** | **1,190,308** |

### Fair values of financial assets and liabilities

The carrying values of financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

## 16. RELATED PARTY TRANSACTIONS AND BALANCES

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 2011 and 2010 with related parties:

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | **Related party balances** | **Total category as per financial statements** | **Related party balances** | **Total category as per financial statements** |
| **Cash and cash equivalents** | **25,724** | **242,242** | 1,013 | **60,641** |
| *Shareholders* | *25,724* | | *1,013* | |
| **Advances, prepayments and other current assets** | **7,500** | **51,291** | **7,140** | **62,780** |
| *Key management personnel* | *7,500* | | *7,140* | |
| **Net investment in finance lease** | **116,300** | **3,867,831** | **-** | **1,177,993** |
| *Key management personnel* | *116,300* | | - | |
| **Secured loans** | **3,932,500** | **3,932,500** | **1,043,254** | **1,043,254** |
| *Shareholders* | *3,932,500* | | *1,043,254* | |
| **Other current liabilities** | **36,109** | **140,423** | **2,834** | **26,031** |
| *Shareholders* | *36,109* | | *2,834* | |

The Company had the following transactions for the year ended 31 December 2011 and 2010 with related parties:

| | Year ended 31 December 2011 | | Year ended 31 December 2010 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements** | **Related party transactions** | **Total category as per financial statements** |
| **Interest income from finance leases** | **2,969** | **541,261** | **-** | **12,165** |
| *Key management personnel* | *2,969* | | - | |
| **Interest expense** | **(142,573)** | **(142,573)** | **(2,834)** | **(2,834)** |
| *Shareholders* | *(142,573)* | | *(2,834)* | |
| **Operating expenses** | **(164,933)** | **(393,868)** | **(136,800)** | **(331,103)** |
| *Key management personnel* | *(164,933)* | | *(136,800)* | |