

**UNILEASING CLOSED JOINT-STOCK COMPANY**

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

**31 December 2007**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Unileasing Closed Joint-Stock Company:

1. We have audited the accompanying financial statements of Unileasing Closed Joint-Stock Company (the "Company") which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

2. 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*

3. 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.
4. 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 judgement, 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.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

6. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Unileasing Closed Joint-Stock Company**  
**Balance Sheet**

<i>In Azerbaijani Manats</i>	<b>Note</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Assets</b>			
Cash and cash equivalents	7	861,524	96,679
Receivables	8	148,007	2,183
Finance lease receivables	9	12,231,678	3,684,965
Equipment under construction for leasing	10	54,620	-
Intangible assets	11	18,552	1,472
Equipment	11	142,807	61,363
Deferred income tax asset		53,335	6,156
Other assets	12	711,371	364,354
<b>Total assets</b>		<b>14,221,894</b>	<b>4,217,172</b>
<b>Liabilities</b>			
Accounts payable	13	169,219	133,444
Advances received from customers	14	221,378	66,554
Debt securities in issue	15	719,377	70,474
Term borrowings	16	10,766,906	2,680,513
Current income tax liability		128,478	17,424
Other liabilities	17	46,991	3,222
<b>Total liabilities</b>		<b>12,052,349</b>	<b>2,971,631</b>
<b>Equity</b>			
Share capital	18	1,800,000	1,200,000
Retained earnings		369,545	45,541
<b>Total equity</b>		<b>2,169,545</b>	<b>1,245,541</b>
<b>Total liabilities and equity</b>		<b>14,221,894</b>	<b>4,217,172</b>

Approved for issue and signed on behalf of the Board of Directors on 10 July 2009.

\_\_\_\_\_  
Zeki Sadigov  
Chairman of the Board of Directors

\_\_\_\_\_  
Leyla Mammedbeyli  
Finance Director

**Unileasing Closed Joint-Stock Company**  
**Income Statement**

<i>In Azerbaijani Manats</i>	<b>Note</b>	<b>2007</b>	<b>2006</b>
Finance income from leasing		1,574,088	635,257
Interest expense on term borrowings		(835,516)	(362,580)
Interest expense on debt securities		(67,372)	(8,073)
<b>Net finance income</b>		<b>671,200</b>	<b>264,604</b>
Provision for impairment of finance lease receivables	9	(92,284)	-
<b>Net finance income after provision for impairment of finance lease receivables</b>		<b>578,916</b>	<b>264,604</b>
Fee and commission income	20	528,711	161,761
Foreign exchange translation gains less losses		142,595	48,047
Other income		5,038	11,261
<b>Net non-finance income</b>		<b>676,344</b>	<b>221,069</b>
<b>Operating income</b>		<b>1,255,260</b>	<b>485,673</b>
Administrative and other operating expenses	21	(837,421)	(375,176)
<b>Profit before tax</b>		<b>417,839</b>	<b>110,497</b>
Income tax expense	22	(93,835)	(37,466)
<b>Profit for the year</b>		<b>324,004</b>	<b>73,031</b>
<b>Earnings per share for profit attributable to the equity holders of the Company, basic and diluted (expressed in AZN per share)</b>	23	<b>0.42</b>	<b>0.20</b>

**Unileasing Closed Joint-Stock Company**  
**Statement of Changes in Equity**

	Note	Share capital	(Accumulated deficit)/retained earnings	Total Equity
<i>In Azerbaijani Manats</i>				
<b>Balance at 1 January 2006</b>		<b>700,000</b>	<b>(27,490)</b>	<b>672,510</b>
Share issue	18	500,000	-	500,000
Net profit		-	73,031	73,031
<b>Balance at 31 December 2006</b>		<b>1,200,000</b>	<b>45,541</b>	<b>1,245,541</b>
Share issue	18	600,000	-	600,000
Net profit		-	324,004	324,004
<b>Balance at 31 December 2007</b>		<b>1,800,000</b>	<b>369,545</b>	<b>2,169,545</b>

**Unileasing Closed Joint-Stock Company**  
**Statement of Cash Flows**

<i>In Azerbaijani Manats</i>	<b>Note</b>	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>			
Finance income received from leases		1,534,933	618,744
Interest paid		(833,742)	(312,780)
Fees and commissions received		470,737	176,091
Staff cost paid		(347,203)	(183,789)
Other operating income received		5,038	11,261
Operating expenses paid		(392,836)	(153,097)
Income tax paid		(29,960)	(27,039)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>406,967</b>	<b>129,391</b>
<b>Changes in operating assets and liabilities</b>			
Net increase in finance lease receivables		(8,702,869)	(595,119)
Net increase in equipment under construction for leasing		(54,620)	-
Net increase in other assets		(347,017)	(220,413)
Net increase in advances from customers		164,590	31,835
Net increase in debt securities in issue		629,526	-
<b>Net cash used in operating activities</b>		<b>(7,903,423)</b>	<b>(654,306)</b>
<b>Cash flows from investing activities</b>			
Acquisition of premises and equipment	11	(99,109)	(32,673)
Acquisition of intangible assets	11	(17,252)	(2,753)
<b>Net cash used in investing activities</b>		<b>(116,361)</b>	<b>(35,426)</b>
<b>Cash flows from financing activities</b>			
Proceeds from term borrowings	16	12,714,608	1,178,674
Repayment of term borrowings	16	(4,588,097)	(968,992)
Issue of ordinary shares	18	600,000	500,000
<b>Net cash provided from financing activities</b>		<b>8,726,511</b>	<b>709,682</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>58,118</b>	<b>5,537</b>
<b>Net increase in cash and cash equivalents</b>		<b>764,845</b>	<b>25,487</b>
Cash and cash equivalents at the beginning of the year		96,679	71,192
<b>Cash and cash equivalents at the end of the year</b>		<b>861,524</b>	<b>96,679</b>

## **1 Introduction**

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2007 for Unileasing Closed Joint-Stock Company (the "Company").

The Company was incorporated and is domiciled 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.

As at 31 December 2007, OJSC UniBank owned 66.7% (31 December 2006: 100%) of the issued share capital and is the ultimate parent company. UniBank is ultimately controlled by Mr. Eldar Garibov (31 December 2006: Mr. Eldar Garibov). Refer to Note 18

**Principal activity.** The Company's principal business activity is providing lease finance to companies within the Republic of Azerbaijan. The company leases various types of industrial equipment and equipment used in information technology. 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 was registered with the Ministry of Justice of the Republic of Azerbaijan and commenced its operations in August 2004.

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

R.Behbudov 57  
Baku AZ 1022  
Republic of Azerbaijan

**Presentation currency.** These financial statements are presented in Azerbaijani Manats ("AZN").

## **2 Operating Environment of the Company**

**The Republic of Azerbaijan.** The Republic of Azerbaijan displays certain characteristics of an emerging market, including the existence of a currency that is not freely convertible in most countries outside of the Republic of Azerbaijan, relatively high inflation and strong economic growth.

The tax, currency and customs legislation within the Republic of Azerbaijan is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalized procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by companies currently operating in the Republic of Azerbaijan. The future economic direction of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

**Recent volatility in global financial markets.** The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, at times much higher than normal lending rates, and lower liquidity levels across the Republic of Azerbaijan banking sector resulting in a significant reduction in the new number of new loans and advances made to customers, and higher funding costs where it remains possible to obtain debt finance from International Institutions or other local banks. The uncertainties in the global financial market, has also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. Such circumstances could affect the ability of the Company to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Company may also be affected by the lower liquidity situation, which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for leasing customers may also have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, Management has reflected revised estimates of expected future cash flows in their impairment assessments.

## **2 Operating Environment of the Company (Continued)**

The amount of provision for past due but not impaired leases is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in the Republic of Azerbaijan for many types of collateral, has been affected by the recent volatility in global financial markets resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

Management is unable to reliably determine the effects on the Company's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances.

## **3 Summary of Significant Accounting Policies**

**Basis of preparation.** These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Management, being the Board of Directors, who approved these financial statements for issue, have the power to amend these financial statements. Any such change requires the approval of the Board of Directors.

**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.

**Lease classification.** A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. All other leases are operating leases.

**Finance lease receivables/Finance income recognition.** The Company records finance lease receivables in the amount equal to the net investment in the lease. Net investment in the lease is calculated as the aggregate of the minimum lease payments, representing the amounts guaranteed by the lessee and any unguaranteed residual value (together gross investment in the lease), discounted at the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the present value of the gross investment in the lease to be equal to the fair value of the leased asset.

The difference between the gross investment in the lease and the net investment in the lease represents unearned finance income. The unearned finance income is amortised over the lease term using the discount rate implicit in the lease. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term unless the company acts as manufacturer or dealer lessor, in which case such costs are expensed as part of selling profit similarly to outright sales.

Initial direct costs incurred by lessors include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by sales and marketing team. For finance leases initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Insurance payments made by lessor and not reimbursed by lessees are adjusted against minimum lease payments.

Finance lease receivables also includes an equipment under installation if all the significant risks and rewards of ownership of lease assets are transferred to counterparties. Payments received by the Company from the lessee before the installation date of the lease assets are recorded as principal repayment. The Company starts to accrue interest income from the date of final installation of equipment.

### **3 Summary of Significant Accounting Policies (Continued)**

Any advances made to the supplier after the date of the inception of the lease and before the date of commencement of the lease term, are recorded as prepayments within other assets. Payments received by the Company from the lessee before the commencement of the lease term are recorded as advances received within advances from lessees and other liabilities. Such amounts are adjusted against finance lease receivables on the date of commencement of the lease term.

**Provision for impairment of finance lease receivables.** Impairment of finance lease receivables is recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows include the proceeds that may result from obtaining and selling the assets subject to the lease, other collateral or from guarantees.

If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
  - the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Company obtains;
  - the borrower considers bankruptcy or a financial reorganisation;
  - there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Management's determination of the adequacy of the provision is based on an evaluation of past loss experience, changes in current economic conditions, volume, growth, the composition of the lease portfolio and other relevant factors.

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

When a finance lease receivable is uncollectible, it is written off against the related provision. Finance lease receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for uncollectible finance lease receivables in the income statement.

### **3 Summary of Significant Accounting Policies (Continued)**

**Derecognition of finance lease receivable and other financial assets.** The Company derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Company has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Company has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

**Equipment for leasing.** Equipment for leasing represents equipment purchased to be subsequently transferred into leasing and is stated at cost. If there is a difference between cost and fair value of the equipment at the date of inception of the lease, a gain or loss is recognised when the equipment is reclassified into finance lease receivables on the date of commencement of the lease term.

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

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Company may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments, for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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

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

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

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

### **3 Summary of Significant Accounting Policies (Continued)**

**Initial recognition of financial instruments.** Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price, which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

Following their initial recognition, the financial assets and financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

**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 are carried at amortised cost. Cash and cash equivalents include all bank placements with original maturities of less than three months.

**Equipment and leasehold improvement.** Equipment is stated at cost less accumulated depreciation and impairment losses, if any. Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of equipment items are capitalised and the replaced part is retired.

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

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

**Depreciation.** Depreciation on other items of premises and equipment is calculated, using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Computers and Communication Equipment	25%
Furniture, Fixtures and Other	20%
Vehicles	25%
Leasehold improvement	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

**Intangible assets.** All of the Company's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised based on the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight-line basis over expected useful lives of 5 to 10 years.

### **3 Summary of Significant Accounting Policies (Continued)**

**Operating leases.** Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss on a straight-line basis over the lease term.

The lease term is the non-cancellable period for which the lessee contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight line basis over the lease term.

**Debt securities in issue.** Debt securities in issue include debentures issued by the Company. Debt securities are stated at amortised cost. If the Company purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

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

**Accrued interest income and accrued interest expense.** Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium, are included in the carrying values of related balance sheet items.

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

Deferred income tax is provided, using the balance sheet liability method, for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available, against which the deductions can be utilised.

**Advances from lessees and other liabilities.** Advances from lessees are recorded if payments are received prior to the commencement of the lease term and are subsequently adjusted against finance lease receivables. Trade and other payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

**Income and expense recognition.** Interest income and expense are recorded in the income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Fees integral to the effective interest rate include origination fees received or paid by the entity that are incremental and directly attributable to the creation or acquisition of a financial asset or issuance of a financial liability.

Fees and commissions that are not integral to the effective interest rate are generally recorded on an accrual basis as the service is provided.

### **3 Summary of Significant Accounting Policies (Continued)**

**Government Grants.** Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to them and the grants will be received.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets decreases historical value of those assets. Government grants related to purchase of fixed assets were presented in the balance sheet by deducting the grant in arriving at the carrying amount of the assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants related to income are deducted in reporting the related staff costs.

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

Monetary assets and liabilities are translated into entity's functional currency at the official exchange rate of the National Bank of Azerbaijan Republic (the "NBAR") at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into entity's functional currency at year-end official exchange rates of the NBAR are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2007, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 0.8453 and EUR 1 = AZN 1.2450 (31 December 2006: USD 1 = AZN 0.8714 and EUR 1 = AZN 1.1471).

**Offsetting.** Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies**

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

**Current/non-current presentation of the balance sheet.** Management believes that the Company does not have a clearly identifiable operating cycle. It therefore decided that a presentation of assets and liabilities in the balance sheet in order of their liquidity together with liquidity position disclosures in Note 25 provides information that is reliable and more relevant than a current/non-current presentation.

**Finance leases and derecognition of financial assets.** Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

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

**Impairment losses on finance lease receivables.** The Company regularly reviews its finance lease receivables to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of leases before the decrease can be identified with an individual lease in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of lessees in a group, or national or local economic conditions that correlate with defaults in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total leases receivables differs by +/- one month, the provision would be approximately AZN 3,890 (31 December 2006: no provision expense) higher or lower.

**Deferred income tax asset recognition.** The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future Management makes judgements and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

**Initial recognition of related party transactions.** In the normal course of business the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

**Tax legislation.** Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 22.

#### **5 Adoption of New or Revised Standards and Interpretations**

Certain new IFRSs became effective for the Company from 1 January 2007as follows:

**IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007).** The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management.

The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.

**Other new standards or interpretations.** The Company has adopted the following other new standards or interpretations, which became effective from 1 January 2007:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006); and
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

## **6 New Accounting Pronouncements**

The following new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2008 or later periods and which the Company has not early adopted:

- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008); and
- IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

**Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition.** The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made.

**IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009).** The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Company is currently assessing what impact the standard will have on segment disclosures in the financial statements.

**Puttable Financial Instruments and Obligations Arising on Liquidation — IAS 32 and IAS 1 Amendment (effective from 1 January 2009).** The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Company is currently assessing the impact of the amendment on its financial statements.

**IAS 23, Borrowing Costs (revised March 2008; effective for annual periods beginning on or after 1 January 2009).** The revised IAS 23 was issued in March 2008. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Company is currently assessing the impact of the amended standard on its financial statements.

**IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009).** The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

## **6 New Accounting Pronouncements (Continued)**

The Company expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

**IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).** The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Company is currently assessing the impact of the amended standard on its financial statements.

**IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).** The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Company is currently assessing the impact of the amended standard on its financial statements.

**IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008).** IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Company's operations because the company does not operate any loyalty programmes.

**IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009).** The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Company's operations because it does not have any agreements for the construction of real estate.

**IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008).** The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a Company except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16.

**IFRIC 18, Transfer of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).** IFRIC 18 applies to the accounting for transfer of items of property, plant and equipment by entities that receive such transfers from their customers. This interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

**6 New Accounting Pronouncements (Continued)**

**Improvements to International Financial Reporting Standards (issued in May 2008).** In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Company does not expect the amendments to have any material effect on its financial statements.

**Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009).** The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Company's financial statements

**Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted).** The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have an impact on the Company's financial statements.

**IFRIC 17, Distribution of Non-Cash Assets to Owners** (effective for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Company's operations because it does not distribute non-cash assets to owners.

**IFRS 1, First-time Adoption of International Financial Reporting Standards** (effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Company concluded that the revised standard does not have any effect on its financial statements.

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

## 7 Cash and Cash Equivalents

<i>In Azerbaijani Manats</i>	31 December 2007	31 December 2006
Cash on hand	306	6
Current accounts with resident banks	861,218	96,673
<b>Total cash and cash equivalents</b>	<b>861,524</b>	<b>96,679</b>

At 31 December 2007 cash and cash equivalents of AZN 860,149 (2006: AZN 96,673) are held on the Company's current accounts with the Parent Bank and has no indication of impairment.

The analysis by credit quality of cash and cash equivalents at 31 December 2007 and 31 December 2006 is as follows:

<i>In Azerbaijani Manats</i>	31 December 2007		31 December 2006	
	Cash on hand	Current accounts with resident banks	Cash on hand	Current accounts with resident banks
<i>Current and not impaired</i>				
- Cash on hand	306	-	6	-
-Bank with "BB+" rating from Fitch IBCA	-	860,149	-	96,673
-Other banks	-	1,069	-	-
<b>Total current and not impaired</b>	<b>306</b>	<b>861,218</b>	<b>6</b>	<b>96,673</b>
<b>Total cash and cash equivalents</b>	<b>306</b>	<b>861,218</b>	<b>6</b>	<b>96,673</b>

The interest rate analysis of cash and cash equivalents is disclosed in Note 25. The information on related party balances is disclosed in Note 29.

## 8 Receivables

<i>In Azerbaijani Manats</i>	31 December 2007	31 December 2006
Fee and commission income receivable	138,365	-
Other	9,642	2,183
<b>Total receivables</b>	<b>148,007</b>	<b>2,183</b>

The analysis by credit quality of fee and commission income receivable outstanding as 31 December 2007 is as follows:

<i>In Azerbaijani Manats</i>	Receivables from banks	Receivables from insurance companies	Receivables from sellers	Total
<i>Past due not impaired</i>				
- Less than 30 days overdue	-	-	-	-
- 30 to 90 days overdue	19,231	-	42,781	62,012
- 90-180 days overdue	-	76,353	-	76,353
<b>Total fee and commission income receivable</b>	<b>19,231</b>	<b>76,353</b>	<b>42,781</b>	<b>138,365</b>

**9 Finance Lease Receivables**

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

<i>In Azerbaijani Manats</i>	<b>Due in 1 year</b>	<b>Due between 1 and 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
<b>Finance lease payments receivable at 31 December 2007</b>	<b>6,580,764</b>	<b>9,624,156</b>	<b>1,386</b>	<b>16,206,306</b>
Unearned future finance income	(2,059,652)	(1,822,461)	(231)	(3,882,344)
Impairment loss provision	(92,284)	-	-	(92,284)
<b>Present value of finance lease payments receivable at 31 December 2007</b>	<b>4,428,828</b>	<b>7,801,695</b>	<b>1,155</b>	<b>12,231,678</b>
<b>Finance lease payments receivable at 31 December 2006</b>	<b>2,482,350</b>	<b>2,013,974</b>	<b>-</b>	<b>4,496,324</b>
Unearned future finance income	(447,939)	(363,420)	-	(811,359)
Impairment loss provision	-	-	-	-
<b>Present value of finance lease payments receivable at 31 December 2006</b>	<b>2,034,411</b>	<b>1,650,554</b>	<b>-</b>	<b>3,684,965</b>

The movements in the provision for impairment of finance lease receivables during 2007 are as follows:

<i>In Azerbaijani Manats</i>	<b>Corporate entities</b>	<b>Individuals- Construction</b>	<b>Individuals- Consumer goods</b>	<b>Individuals- Production</b>	<b>Individuals- Trade and services</b>	<b>Individuals- Other</b>	<b>Total</b>
<b>Provision for impairment at 1 January 2007</b>	-	-	-	-	-	-	-
Provision for impairment during the year	38,003	-	43,609	-	10,672	-	92,284
<b>Provision for impairment at 31 December 2007</b>	<b>38,003</b>	<b>-</b>	<b>43,609</b>	<b>-</b>	<b>10,672</b>	<b>-</b>	<b>92,284</b>

The Company normally structures its finance lease contracts so that the lessee makes a prepayment of 20-25% of the equipment purchase price at the inception of the lease term. The Company holds title to the leased assets during the lease term. The title to assets under finance lease contracts passes to the lessees at the end of those contracts' terms.

There is no unguaranteed residual value of leased assets as at 31 December 2007 (2006: no unguaranteed residual value of leased assets).

Risks related to the leased assets such as damage caused by various reasons, theft and other are generally insured.

**9 Finance Lease Receivables (Continued)**

Management periodically assesses the financial performance of the lessees by monitoring debts outstanding and analysing their financial reports. Management believes that the provision created for net investment in finance leases is adequate to absorb potential losses existing in the lease portfolio at the balance sheet date.

Information about collateral at 31 December 2007 and 31 December 2006 is as follows:

<i>In Azerbaijani Manats</i>	<b>31 December 2007</b>			<b>31 December 2006</b>		
	Finance lease collateralised by:			Finance lease collateralised by:		
	Vehicles	Equipment	Total	Vehicles	Equipment	Total
- Corporate entities	6,603,291	1,935,516	8,538,807	2,348,260	1,195,729	3,543,989
- Individuals-consumer goods	1,387,467	-	1,387,467	9,053	-	9,053
- Individuals-trade and services	1,023,942	79,250	1,103,192	69,966	-	69,966
- Individuals-production	410,873	92,964	503,837	61,957	-	61,957
- Individuals-construction	362,530	-	362,530	-	-	-
- Individuals-other	335,845	-	335,845	-	-	-
<b>Total finance lease receivables</b>	<b>10,123,948</b>	<b>2,107,730</b>	<b>12,231,678</b>	<b>2,489,236</b>	<b>1,195,729</b>	<b>3,684,965</b>

Analysis by credit quality of finance lease receivables is as follows:

<i>In Azerbaijani Manats</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<i>Current and not impaired</i>		
- Large customers	7,694,158	2,363,916
- Middle market customers	2,368,637	927,343
- Small-business customers	992,676	130,178
<b>Total current and not impaired</b>	<b>11,055,471</b>	<b>3,421,437</b>
<i>Past due but not impaired</i>		
- Less than 30 days overdue	883,765	230,331
- 30 days to 60 days overdue	192,539	22,738
- 60 days to 90 days overdue	32,289	10,459
- 90 days to 180 days overdue	40,552	-
- 180 days to 360 days overdue	27,062	-
<b>Total past due but not impaired</b>	<b>1,176,207</b>	<b>263,528</b>
<b>Total finance lease receivables</b>	<b>12,231,678</b>	<b>3,684,965</b>

The Company applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual lease by the balance sheet date. The Company's policy is to classify each lease as 'current and not impaired' until a specific objective evidence of impairment of the lease is identified. The impairment provisions may exceed the total gross amount of individually impaired leases as a result of this policy and the portfolio impairment methodology.

The primary factors that the Company considers whether a lease is impaired is its overdue status and realisability of related collateral, if any. As a result, the Company presents above an ageing analysis of leases that are past due but not impaired.

**9 Finance Lease Receivables (Continued)**

Past due but not impaired leases represent leases where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such leases, not only the individual instalments that are past due.

Fair value of collateral in respect of finance lease receivables past due but not impaired at 31 December 2007 and 31 December 2006 was as follows:

<i>In Azerbaijani Manats</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<i>Fair value of collateral – receivables past due but not impaired</i>		
- vehicles	1,330,171	304,995
<i>Fair value of collateral - receivables past due but not impaired</i>		
- equipment	156,780	-
<b>Total</b>	<b>1,486,951</b>	<b>304,995</b>

As at 31 December 2007, the Company had 128 lessees (2006: 25 lessees) with total finance lease receivables above AZN 50 000 . The total aggregate amount of these finance lease receivables is AZN 8,501,465 (2006: AZN 2,474,790).

At 31 December 2007, no equipment leased out has been pledged to third parties as collateral with respect to loans from banks (2006: AZN 1,785,031).

As at 31 December 2007, the estimated fair value of finance lease receivables was AZN 12,231,678 (2006: AZN 3,684,965). Refer to Note 27.

The fair value is determined by discounting expected cash flows using interest rates from 14% p.a. to 25% p.a. (2006: from 15% p.a. to 24% p.a.) depending on the deemed credit risk of the counterparty.

**10 Equipment under Construction for Leasing**

The equipment under construction for leasing is disclosed in the table below:

<i>In Azerbaijani Manats</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Equipment under construction for leasing at 1 January (at cost)</b>	-	-
Cost of equipment acquired during the year	54,620	-
Equipment transferred to lessees	-	-
<b>Equipment under construction for leasing at 31 December (at cost)</b>	<b>54,620</b>	<b>-</b>

All the risks incidental to ownership of equipment under construction remains with the Company. Risks related to the leased assets such as damage caused by various reasons, theft and other are generally insured.

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**11 Equipment and Intangible Assets**

	Note	Leasehold Improvement	Computer equipment	Furniture and fixtures	Vehicles	Intangible assets	Total
<i>In Azerbaijani Manats</i>							
Cost or valuation at 1 January 2006		-	22,195	13,017	12,629	655	48,496
Accumulated depreciation		-	(3,008)	(1,815)	(2,959)	(175)	(7,957)
<b>Carrying amount at 1 January 2006</b>		<b>-</b>	<b>19,187</b>	<b>11,202</b>	<b>9,670</b>	<b>480</b>	<b>40,539</b>
Additions		-	4,056	1,654	26,963	2,753	35,426
Depreciation /amortisation charge	21	-	(4,923)	(2,332)	(4,114)	(1,761)	(13,130)
<b>Carrying amount at 31 December 2006</b>		<b>-</b>	<b>18,320</b>	<b>10,524</b>	<b>32,519</b>	<b>1,472</b>	<b>62,835</b>
Cost or valuation at 31 December 2006		-	26,251	14,671	39,592	3,408	83,922
Accumulated depreciation		-	(7,931)	(4,147)	(7,073)	(1,936)	(21,087)
<b>Carrying amount at 31 December 2006</b>		<b>-</b>	<b>18,320</b>	<b>10,524</b>	<b>32,519</b>	<b>1,472</b>	<b>62,835</b>
Additions		72,734	19,402	6,701	272	17,252	116,361
Disposals		-	-	-	-	-	-
Depreciation / amortisation charge	21	-	(7,225)	(2,318)	(8,122)	(172)	(17,837)
<b>Carrying amount at 31 December 2007</b>		<b>72,734</b>	<b>30,497</b>	<b>14,907</b>	<b>24,669</b>	<b>18,552</b>	<b>161,359</b>
Cost or valuation at 31 December 2007		72,734	45,653	21,372	39,864	20,660	200,283
Accumulated depreciation		-	(15,156)	(6,465)	(15,195)	(2,108)	(38,924)
<b>Carrying amount at 31 December 2007</b>		<b>72,734</b>	<b>30,497</b>	<b>14,907</b>	<b>24,669</b>	<b>18,552</b>	<b>161,359</b>

Intangible assets as at 31 December 2007 represent mainly computer software and licenses.

**12 Other Assets**

<i>In Azerbaijani Manats</i>	31 December 2007	31 December 2006
Prepayments to suppliers	683,124	331,521
Advances to employees	25,036	6,384
Prepayments for insurance and duties	-	26,449
Other	3,211	-
<b>Total other assets</b>	<b>711,371</b>	<b>364,354</b>

The analysis by credit quality of prepayment to suppliers at 31 December 2007 and 31 December 2006 is as follows:

<i>In Azerbaijani Manats</i>	31 December 2007	31 December 2006
<i>Current and not impaired</i>		
Prepayments made to suppliers to purchase equipment for leasing purposes		
- New large suppliers	228,437	216,411
- New medium-size suppliers	37,512	79,558
- New small-size suppliers	-	35,552
- Large suppliers with a credit history of over one year	417,175	-
<b>Total prepayments</b>	<b>683,124</b>	<b>331,521</b>

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**13 Accounts Payable**

<i>In Azerbaijani Manats</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Trade accounts payable	74,008	64,832
Payables to insurance companies	60,991	46,165
Audit fee payable	34,220	22,447
<b>Total accounts payables</b>	<b>169,219</b>	<b>133,444</b>

**14 Advances Received from Customers**

As at 31 December 2007 and 31 December 2006, advances received from customers comprise of AZN 221,378 and AZN 66,554 received from customers under leasing contracts, respectively. As at 31 December 2007, advances received from customers includes finance income received in advance in the amount of AZN 29,586 (31 December 2006: nil).

**15 Debt Securities in Issue**

<i>In Azerbaijani Manats</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Debentures	719,377	70,474
<b>Total debt securities in issue</b>	<b>719,377</b>	<b>70,474</b>

On 30 April 2007, the Company issued 7,000 discount debt securities through a primary placement at the Baku Stock Exchange, with a par value of AZN 100 each. These discount debt securities are denominated in AZN, have an interest rate of 14% p.a. and have a period to maturity of 360 days. All of these debentures had been sold at the Baku Stock Exchange as at the reporting date. These securities may be traded at the Baku Stock Exchange. All discount debt securities were settled subsequent to the balance sheet date on the stated maturity date of 24 April 2008.

At 31 December 2007, the estimated fair value of debentures was AZN 719,377 (31 December 2006: AZN 70,474). The interest rate analysis of debt securities in issue are disclosed in Note 25.

**16 Term Borrowings**

<i>In Azerbaijani Manats</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Funds borrowed from resident banks:		
- Unibank Commercial Bank OJSC	4,775,722	1,335,677
- Amrahbank Commercial Bank OJSC	2,028,720	-
- Rabitabank Commercial Bank OJSC	2,028,720	470,556
- Kredobank Commercial Bank OJSC	456,462	174,280
- Muganbank Commercial Bank OJSC	253,590	-
- Bank Standard Commercial Bank CJSC	-	700,000
Funds borrowed from European Bank for Reconstruction and	1,223,692	-
<b>Total term borrowings</b>	<b>10,766,906</b>	<b>2,680,513</b>

In 2007, the Company signed a Loan Agreement with Unibank OJSC, the Parent Bank, for USD 3,570,000 for the purpose of financing the leasing operations of the Company. The borrowing is subject to a market interest rate and is repayable in several instalments in 2008. The borrowing outstanding as at 31 December 2007 was subsequently prolonged until January 2012. There were no financial covenants with regard to borrowing from Unibank OJSC that the Company should comply with.

On 30 November 2004, the Company signed a Loan Agreement with the Unibank OJSC, for obtaining a credit line not exceeding USD 2,020,000 for the purpose of financing the Company's leasing operations. The funds drawn down under this contract was USD 2,018,772 as at 31 December 2007 (31 December 2006: USD 1,333,914). The credit line carries a market interest rate and was repayable in 2008.

## **16 Term Borrowings (Continued)**

The repayment of amounts borrowed under this credit line facility subsequently have been prolonged for five years.

In 2007, the Company signed a Loan Agreements with Amrahbank OJSC, registered in Azerbaijan, for the total amount of USD 2,400,000 for the purpose of financing the Company's leasing operations. This loan bears an interest rate of 13% per annum and was repayable in two equal instalments in 2008. The borrowing outstanding as at 31 December 2007 was subsequently fully repaid during 2008. There were no financial covenants with regard to this borrowing from AmrahBank OJSC that the Company should comply with.

In 2007, the Company signed five borrowing agreements with Rabitabank OJSC, for the purposes of financing the Company's leasing operations. Under this agreement, funds are made available to the Company at an interest rate of 13% per annum. The borrowings from Rabitabank were subsequently repaid by the Company in 2008. There were no financial covenants with regard to borrowing from Rabitabank OJSC that the Company should comply with.

Included in the balance of the funds borrowed from Kredobank OJSC as at 31 December 2007 is the balance of borrowings extended by Kredobank OJSC. During 2007, the Company signed two Loan Agreements with Kredobank OJSC, for the total amount of USD 540,000. The borrowings carry an interest rate of 13 % per annum and are repayable on maturity in one instalment in 2008. The borrowings from Kredobank were subsequently repaid by the company in 2008. There were no financial covenants with regard to borrowing from Kredobank OJSC that the Company should comply with.

On 16 November 2007, the Company signed a Loan Agreement with Muganbank OJSC for the total amount of USD 300,000. The borrowing carries an interest rate of 15 % per annum and is repayable on maturity in one instalment in 2008. The borrowing from Muganbank OJSC was subsequently repaid by the company in 2008. There were no financial covenants with regard to borrowing from Muganbank OJSC that the Company should comply with.

On 14 March 2007, the Company signed a Loan Agreement with the European Bank for Reconstruction and Development, for USD 3 million with maturity date of 7 October 2010, for the purpose of financing of the Company's leasing operations. On 13 April 2007, the first tranche of these funds in the amount of USD 1,500,000 was disbursed by the European Bank for Reconstruction and Development. This borrowing carries an interest rate of LIBOR +4,5 % per annum and is repayable quarterly. The first instalment has been repaid by the Company at the respective maturity date in 2009. The Company is obliged to comply with certain financial covenants stipulated by the aforementioned Loan Agreement. At 31 December 2007, management of the Company believes that the Company was in compliance with those covenants.

At 31 December 2007, funds borrowed from Amrahbank OJSC, Rabitabank OJSC, Kredobank OJSC, Muganbank OJSC represents funds placed by Unibank, the Parent Bank, as a term placements with Amrahbank OJSC, Rabitabank OJSC, Kredobank OJSC, Muganbank OJSC respectively. These placements have subsequently been granted by these banks, to Unileasing, a subsidiary of Unibank, under separate agreements.

At 31 December 2007, the estimated fair value of term borrowings was AZN 10,766,906 (2006: AZN 2,680,513).

The interest rate analysis of term borrowings is disclosed in Note 25.

## **17 Other Liabilities**

<i>In Azerbaijani Manats</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Accrual of payable to employees	37,172	1,109
Payables to state authorities	9,819	2,113
<b>Total accounts payables</b>	<b>46,991</b>	<b>3,222</b>

Included in the balance of accrual of payable to employees is performance bonuses payable to employees in the amount of AZN 36,113, that related to the year ended 31 December 2007. (31 December 2006: nil)

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**18 Share Capital**

At 31 December 2007, Unibank OSCJ, the Parent Bank, owned 66.7% of the Company's ordinary shares. (31 December 2006: 100%). The European Bank for Reconstruction and Development ("the EBRD") owned 33.3% of the Company's shares (31 December 2006: nil). Movements in the Company's ordinary shares are as follows:

<i>In AZN except for number of shares</i>	<b>Number of outstanding shares</b>	<b>Ordinary shares</b>	<b>Total</b>
<b>At 1 January 2006</b>	<b>350,000</b>	<b>700,000</b>	<b>700,000</b>
New shares issued for cash	250,000	500,000	500,000
<b>At 31 December 2006</b>	<b>600,000</b>	<b>1,200,000</b>	<b>1,200,000</b>
New shares issued for cash	300,000	600,000	600,000
<b>At 31 December 2007</b>	<b>900,000</b>	<b>1,800,000</b>	<b>1,800,000</b>

At 31 December 2007, all of the Company's outstanding shares were authorised, issued and fully paid.

All ordinary shares have a nominal value of AZN 2 per share (2006: AZN 2) and rank equally. Each share carries one vote.

During 2007, the Company increased its share capital from AZN 1,200,000 to AZN 1,800,000 through a cash contribution of AZN 600,000 by the European Bank for Reconstruction and Development. The total authorised capital of the Company as at 31 December 2007 consisted of 900,000 shares with a par value of AZN 2 each.

**19 Government Grant**

On 1 March 2006, a grant agreement was concluded between the Company and Azerbaijan Business Assistance and Development Program (ABAD) whose performance is governed by the International Rescue Committee and the United States Agency for International Development (USAID) for the purpose of the development of rural business in Azerbaijan by providing financial services to support business and production activities.

ABAD obligates the grant in the total amount of USD 73,775 for the purpose of this Agreement.

The Company acts as the grantee and has agreed to provide human and technical resources, infrastructure, administrative support and equipment to support the program financed by ABAD. The Company takes responsibility to lease USD 1,000,000 to Small and Medium enterprises or individual clients in the selected regions of the Republic of Azerbaijan.

The effective date of agreement was 1 March 2006 and estimated completion date was 31 December 2007. The completion date was subsequently extended to 31 December 2008. As at 31 December 2007, the total grant provided by the ABAD equalled AZN 59,020.

**20 Fee and Commission Income**

<i>In Azerbaijani Manats</i>	<b>2007</b>	<b>2006</b>
<b>Fee and commission income</b>		
-Lease agency commission	452,359	161,761
-Commission income from insurance companies	76,352	-
<b>Total fee and commission income</b>	<b>528,711</b>	<b>161,761</b>

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**21 Administrative and Other Operating Expenses**

<i>In Azerbaijani Manats</i>	<b>Note</b>	<b>2007</b>	<b>2006</b>
Staff costs		383,361	184,720
Rent		86,885	24,433
Social security cost (pension contribution)		76,345	36,629
Bank charges		71,778	28,080
Professional services		38,991	21,783
Insurance		25,814	7,908
Advertising and marketing		21,908	13,000
Office supplies		18,955	1,865
Depreciation / amortisation charge for the year	11	17,837	13,130
Communication		16,002	7,428
Representative expenses		15,727	-
Business trip		14,910	15,520
Transportation		10,719	9,004
Taxes other than on profit		7,284	-
Other		30,905	11,676
<b>Total administrative and other operating expenses</b>		<b>837,421</b>	<b>375,176</b>

The increase in administrative and other operating expenses during the year ended 31 December 2007 is largely driven by a general increase in volume of operations of the Company, which required additional human resources, office space and equipment.

The significant increase in staff costs is due to an increase in the base salary level for all staff, and increased bonus payments to reflect improved performance at certain branches.

The increase in rent expenses is related to an increase in rental fees for the branch buildings and head office.

**22 Income Taxes**

Income tax expense comprises the following:

<i>In Azerbaijani Manats</i>	<b>2007</b>	<b>2006</b>
Current tax	141,014	31,820
Deferred tax	(47,179)	5,646
<b>Income tax expense for the year</b>	<b>93,835</b>	<b>37,466</b>

The income tax rate applicable to the majority of the Company's income is 22% (2006: 22%). Reconciliation between the expected and the actual taxation charge is provided below.

<i>In Azerbaijani Manats</i>	<b>2007</b>	<b>2006</b>
<b>IFRS profit before tax</b>	<b>417,839</b>	<b>110,497</b>
Theoretical tax charge at statutory rate (2007: 22%; 2006: 22%)	(91,925)	(24,309)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	(2,851)	(13,157)
- Other temporary differences	941	-
<b>Income tax expense for the year</b>	<b>(93,835)</b>	<b>(37,466)</b>

**22 Income Taxes (Continued)**

Differences between IFRS and Azerbaijani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

	31 December 2006	Movement	31 December 2007
<b>Tax effect of deductible/ (taxable) temporary differences</b>			
Finance lease receivables	(72)	36,644	36,572
Accounts payable	4,938	2,590	7,528
Property, plant, equipment and intangible assets	1,290	(1,290)	-
Accrual of payables to employees	-	7,945	7,945
Other movement	-	1,290	1,290
<b>Net deferred tax asset</b>	<b>6,156</b>	<b>47,179</b>	<b>53,335</b>

	31 December 2005	Movement	31 December 2006
<b>Tax effect of deductible/ (taxable) temporary differences</b>			
Finance lease receivables	6,842	(6,914)	(72)
Accounts payable	4,960	(22)	4,938
Property, plant, equipment and intangible assets	-	1,290	1,290
<b>Net deferred tax asset</b>	<b>11,802</b>	<b>(5,646)</b>	<b>6,156</b>

**23 Earnings per Share**

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

<i>In Azerbaijani Manats</i>	2007	2006
Profit for the year attributable to ordinary shareholders	324,004	73,031
Weighted average number of ordinary shares in issue (number of shares)	18 771,667	357,639
<b>Basic earnings per ordinary share (expressed in AZN per share)</b>	<b>0.42</b>	<b>0.20</b>

## 24 Segment Analysis

The Company's primary format for reporting segment information is by business segments. The Company operates only in the Republic of Azerbaijan and therefore does not report geographical segments.

**Business Segments.** The Company is organised on the basis of two main business segments:

- Retail leasing – representing private leasing services to individuals.
- Corporate leasing – representing leasing products and services to corporate entities.

There are no material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation.

Segment information for the main reportable business segments of the Company for the years ended 31 December 2007 and 2006 is set out below:

	Retail leasing		Corporate leasing		Total	
	2007	2006	2007	2006	2007	2006
<i>In Azerbaijani Manats</i>						
External revenues	632,350	32,330	1,475,487	775,949	2,107,837	808,279
<b>Total revenues</b>	<b>632,350</b>	<b>32,330</b>	<b>1,475,487</b>	<b>775,949</b>	<b>2,107,837</b>	<b>808,279</b>
<b>Total revenues comprise:</b>						
- Interest income	472,226	25,410	1,101,862	609,847	1,574,088	635,257
- Fee and commission income	158,613	6,470	370,098	155,291	528,711	161,761
- Other operating income	1,511	450	3,527	10,811	5,038	11,261
<b>Total revenues</b>	<b>632,350</b>	<b>32,330</b>	<b>1,475,487</b>	<b>775,949</b>	<b>2,107,837</b>	<b>808,279</b>
<i>In Azerbaijani Manats</i>						
<b>Segment result</b>	<b>125,351</b>	<b>4,420</b>	<b>292,488</b>	<b>106,077</b>	<b>417,839</b>	<b>110,497</b>
<b>Profit before tax</b>					<b>417,839</b>	<b>110,497</b>
Income tax expense					(93,835)	(37,466)
<b>Profit</b>					<b>324,004</b>	<b>73,031</b>
<b>Other segment items</b>						
Capital expenditure	(34,908)	(1,417)	(81,453)	(34,009)	(116,361)	(35,426)
Depreciation and amortisation expense	(5,351)	(525)	(12,486)	(12,605)	(17,837)	(13,130)
Other non-cash income and expense items	15,093	1,922	35,218	46,125	50,311	48,047

**24 Segment Analysis (Continued)**

Information about segment assets and liabilities of the Company at 31 December 2007 and 31 December 2006 is given in the following table:

	Retail leasing		Corporate leasing		Total	
	2007	2006	2007	2006	2007	2006
<i>In Azerbaijani Manats</i>						
<b>Total segment assets</b>	<b>3,737,802</b>	<b>164,156</b>	<b>10,269,398</b>	<b>3,984,025</b>	<b>14,007,200</b>	<b>4,148,181</b>
Current and deferred tax asset						
Other unallocated assets					214,694	68,991
<b>Total assets</b>					<b>14,221,894</b>	<b>4,217,172</b>
<b>Total segment liabilities</b>	<b>(3,384,424)</b>	<b>(112,558)</b>	<b>(8,529,628)</b>	<b>(2,838,427)</b>	<b>(11,914,052)</b>	<b>(2,950,985)</b>
Current income tax liability					(128,478)	(17,424)
Other unallocated liabilities					(9,819)	(3,222)
<b>Total liabilities</b>					<b>(12,052,349)</b>	<b>(2,971,631)</b>

## **25 Financial Risk Management**

The risk management function within the Company is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise 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 lending and other 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 minimisation of possible credit risks. These limits are, as follows:

- i. Limits for business portfolio and consumer leasing portfolio;
- ii. Limits by sectors of economy;
- iii. Regional limits;
- iv. Concentration limits; and
- v. Limits by collateral type.

The limits are developed and revised by the Risk Management Department 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, the principles of rating system implemented by the Company, lending procedures etc.

In order to monitor credit risk exposures, regular reports are produced by the Credit Risk Management together with the Leasing Department officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against lessees with deteriorating creditworthiness are reported to and reviewed by Credit Administration Department of the Company. The Company uses formalised internal credit ratings to monitor exposures to credit risk. Management monitors and follows up on past due balances.

The Company's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

## **25 Financial Risk Management (Continued)**

The Company's maximum exposure to credit risk by class of assets is as follows:

<i>In Azeri Manats</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
Finance lease receivables	12,231,678	3,684,965
Prepayment made to purchase equipment for leasing purposes	683,124	331,521
Cash and cash equivalents	861,524	96,679
<b>Total on-balance sheet exposure</b>	<b>13,776,326</b>	<b>4,113,165</b>

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**Risk management department.** Company's risk management is provided by the Risk Management Department headed by Chief Risk Officer. In order to manage risk, crisis prevention and to maintain continuity in business the Company had developed a comprehensive Risk Management System. This system covers every aspect of the business. A comprehensive Risk Management System shows the areas of most risk within the financial leasing business, and control systems to mitigate the chances of those risks occurring. The control systems are reviewed periodically to ensure that the risks are adequately managed. Risk management staff of the company studies the business carefully and identifies all potential risks that might affect various aspects of financial leasing business and take the relevant actions to mitigate those risks.

**Credit Committee.** The Credit Committee of the Company ("UCC") is the collective body which operates and reports to the Management Board. UCC is an independent body functioning based on recommendations of Management Board and Supervisory Council. The overall role of UCC is to control and manage all leasing operations approved in the framework of strategic and business plan of the Company. UCC controls procedures and operations of leasing arrangements in accordance with the approved Credit Policy of the Company.

The Credit Committee of the Company consists of five members. The Chairman and other members are appointed by the Supervisory Council. Each Credit Committee Member has one vote.

A lease development process assumes the following steps:

**Lease approval procedure and delegations:**

- i. Once leasing needs have been identified a proposal is reviewed and analysis of the lessee's financial capacity to be conducted by the Leasing Department.
- ii. The draft lease memorandum is then reviewed by the Risk Management Department for completion and assessment of project related risks.
- iii. Upon approval by both the Risk Management, the proposal is then submitted to the Credit Committee for final approval.
- iv. The Credit Committee of the Company made up of (i) Head of the Leasing Department, (ii) Chief Executive Officer (iii) Chief Finance Officer, (iv) Chief Risk Officer, (v) Head of the Marketing and Business Development Department. The Credit Committee is headed by the Head of the Leasing Department.

**Delegation of authorities for credit granting approval:**

- i. The Company's Credit Committee conducts the preliminary assessment of the lease proposals and has approval authority up to a limit of AZN 150,000.
- ii. The Credit Committee of the Unibank makes the approval of the leases over AZN 150,000.

**25 Financial Risk Management (Continued)**

- iii. Upon the Credit Committee approval, the Leasing Department submits a formal lease proposal to the client. If, in subsequent negotiations with the client, the terms of the initial lease proposal are significantly modified, or if new information is discovered, the Manager returns the proposal to the Credit Committee for a second approval.
- iv. A final legal review by law department is also performed prior to a lease contract is sent to the client for signature.
- v. Once a lease contract is signed, the Leasing Department performs the asset delivery and monitoring.

**The appraisal of the collateral value**

- i. Normally, as owner and title holder of leased assets, the leasing company does not require additional security from lessees. If potential new customers do not meet Unileasing's credit criteria set on financial performance or does not have a business history, the Company might require financial guarantee from a financially sound parent or an additional security.

**Registration of leased assets**

- i. The leased assets such as trucks, cars, minivans and some construction equipment are registered with the State Traffic Police. The Company's Credit Administration Department handles the registration related tasks and obtains all necessary documents to allow customers to operate the vehicles. Credit Administration Department ensures the validity and completeness of registration related documents.
- ii. However for certain fixed assets such as equipment and machinery, there is no state registry and the lease contract remains the only proof of the ownership title. Therefore, the Leasing Department carefully provides the due diligence of the proposals and law department define all possible features, including the serial numbers, in the lease agreements. The contracts also state the criminal responsibility for illegal transfer of the ownership rights to the third parties.

**Market risk.** The Company takes on exposure to market risks. Market risks arise from open positions in currency, interest rate and equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a weekly basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

**Currency risk.** The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2007 and the comparatives as at 31 December 2006:

<i>In Azerbaijani Manats</i>	31 December 2007			31 December 2006		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
AZN	11,378,211	854,485	10,523,726	2,239,760	1,029,209	1,210,551
US Dollars	1,670,460	10,801,017	(9,130,557)	1,302,824	1,792,384	(489,560)
Euros	192,538	-	192,538	241,243	62,838	178,405
<b>Total</b>	<b>13,241,209</b>	<b>11,655,502</b>	<b>1,585,707</b>	<b>3,783,827</b>	<b>2,884,431</b>	<b>899,396</b>

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

**25 Financial Risk Management (Continued)**

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

<i>In Azerbaijani Manats</i>	<b>At 31 December 2007</b>	<b>At 31 December 2006</b>
	<b>Impact on profit or loss</b>	<b>Impact on profit or loss</b>
US Dollars strengthening by 5%	(472,392)	(28,090)
US Dollars weakening by 5%	472,392	28,090
Euro strengthening by 10%	17,740	15,553
Euro weakening by 10%	(17,740)	(15,553)

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

The Company's exposure to currency risk at the balance sheet date is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied to average exposure to currency risk during the year, with all other variables held constant:

<i>In Azerbaijani Manats</i>	<b>Average exposure during</b>	<b>Average exposure during</b>
	<b>2007</b>	<b>2006</b>
	<b>Impact on profit or loss</b>	<b>Impact on profit or loss</b>
US Dollars strengthening by 5%	(252,562)	1,274
US Dollars weakening by 5%	252,562	(1,274)
Euro strengthening by 10%	18,731	22,264
Euro weakening by 10%	(18,731)	(22,264)

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Other than as a result of any impact on the Company's profit or loss, there is no other impact on the Company's equity as a result of such change in exchange rates.

**Interest rate risk.** The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Margins between finance income earned and interest expenses paid may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

**25 Financial Risk Management (Continued)**

Financing of finance lease receivables is primarily provided by the Company's capital and borrowings from banks. Interest rates on most of these borrowings are fixed with few borrowings having floating rates based on the LIBOR rates for 1 to 6 month periods.

The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by expected maturity dates.

<i>In thousands of Azerbaijani Manats</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Non-monetary</b>	<b>Total</b>
<b>31 December 2007</b>						
Total financial assets	1,302,641	2,094,354	2,107,751	7,736,463	-	13,241,209
Total financial liabilities	144,918	760,991	4,801,712	5,947,881	-	11,655,502
<b>Net interest sensitivity gap at 31 December 2007</b>						
	<b>1,157,723</b>	<b>1,333,363</b>	<b>(2,693,961)</b>	<b>1,788,582</b>	<b>-</b>	<b>1,585,707</b>
<b>31 December 2006</b>						
Total financial assets	350,911	784,063	881,645	1,767,208	-	3,783,827
Total financial liabilities	472,319	881,471	22,447	1,508,194	-	2,884,431
<b>Net interest sensitivity gap at 31 December 2006</b>						
	<b>(121,408)</b>	<b>(97,408)</b>	<b>859,198</b>	<b>259,014</b>	<b>-</b>	<b>899,396</b>

At 31 December 2007, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the year would have been AZN 11,412 (2006: nil) higher, mainly as a result of lower interest expense on variable interest liabilities. Other components of equity would not be affected by the change.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been AZN 11,412 (2006: nil) lower, mainly as a result of higher interest expense on variable interest liabilities. Other components of equity would not be affected by the change.

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

- i. The sensitivity analysis shows the effects of changes that are considered to be reasonably possible over the period until the entity will next present these disclosures, which is usually its next annual reporting period.
- ii. The sensitivity analysis shows the effect on current period profit or loss and equity if a reasonably possible change in the relevant risk variable had been applied to the risk exposures in existence at the balance sheet date.
- iii. A reasonably possible change in annual LIBOR is considered to be 100 basis points.
- iv. The Company discloses only the effects of the changes at the limits of the reasonably possible range of the relevant risk variable, rather than all reasonably possible changes.

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

**25 Financial Risk Management (Continued)**

<i>In % p.a.</i>	2007			2006		
	AZN	USD	Euro	AZN	USD	Euro
<b>Assets</b>						
Finance lease receivables	14-25	17-24	18-22	15-24	17-24	19-22
<b>Liabilities</b>						
Term borrowings	-	9-13	-	13	13	-
Debt securities in issue	-	14	-	-	13	-

The sign “-“ in the table above means that the Company does not have the respective assets or liabilities in corresponding currency.

**Geographical risk concentrations.** All of the Company’s financial assets and liabilities at 31 December 2007 and 31 December 2006 were concentrated in the Republic of Azerbaijan

**Other risk concentrations.** Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 25 of net assets. The Company did not have any such significant risk concentrations at 31 December 2007 and 2006.

Management determines concentrations by assessing the quantitative data about its exposure to the risk at the reporting date. This disclosure is based on the information provided internally to key management personnel of the Company and includes for example disclosure of concentrations of risks such as currency, credit and interest.

**Liquidity risk.** Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is managed by the Financial Controlling Department of the Company.

The Company seeks to maintain a stable funding base comprising primarily amounts due to other banks, and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Company requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring the balance sheet liquidity position by the Finance Department. The Company’s liquidity ratio is calculated on a weekly basis. There is no instruction or requirements set by any regulatory authorities regarding the liquidity position of the Company, however, under a borrowing agreement with one of the shareholders of the Company, European Bank for Reconstruction and Development (“EBRD”), the liquidity ratio is required to be calculated at least on a quarterly basis and is not to be less than 25%:

- Liquidity ratio, being calculated as the ratio of liquid assets to total assets, was 37% at 31 December 2007 (2006: no liquidity ratio).

The Finance Department responsibilities include:

- i. Monitoring the compliance with the requirements of the EBRD for the Company’s liquidity ratio on a quarterly basis;
- ii. Cash flow forecasting and reporting to Management Board;
- iii. Monitoring of the largest depositors as a factor of risk of liquidity concentration;
- iv. Researching and engaging in the domestic and international markets for obtaining mid and short terms borrowings, for as and when required by the Company as part of its day-to-day operations; and
- v. Monitoring of possible cash movements as new leases are entered into or former contracts are terminated.

**25 Financial Risk Management (Continued)**

The table below shows liabilities at 31 December 2007 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

When the amounts payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

The maturity analysis of financial liabilities at 31 December 2007 is as follows:

<i>In Azerbaijani Manats</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Total</b>
<b>Liabilities</b>					
Accounts payable	74,008	60,991	34,220	-	169,219
Debt securities in issue	19,377	732,667	-	-	752,044
Term borrowings	113,612	568,061	4,776,808	7,892,095	13,350,576
<b>Total potential future payments for financial obligations</b>	<b>206,997</b>	<b>1,361,719</b>	<b>4,811,028</b>	<b>7,892,095</b>	<b>14,271,839</b>

The maturity analysis of financial liabilities at 31 December 2006 is as follows:

<i>In Azerbaijani Manats</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Total</b>
<b>Liabilities</b>					
Accounts payable	-	110,997	22,447	-	133,444
Debt securities in issue	-	81,392	-	-	81,392
Term borrowings	498,873	825,444	98,033	2,028,421	3,450,771
<b>Total potential future payments for financial obligations</b>	<b>498,873</b>	<b>1,017,833</b>	<b>120,480</b>	<b>2,028,421</b>	<b>3,665,607</b>

**25 Financial Risk Management (Continued)**

The Company does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Company monitors expected maturities, which may be summarised as follows as at 31 December 2007:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
<i>In Azerbaijani Manats</i>					
<b>Assets</b>					
Cash and cash equivalents	861,524	-	-	-	861,524
Financial lease receivables	398,336	1,989,128	2,107,751	7,736,463	12,231,678
Receivables	42,781	105,226	-	-	148,007
<b>Total financial assets</b>	<b>1,302,641</b>	<b>2,094,354</b>	<b>2,107,751</b>	<b>7,736,463</b>	<b>13,241,209</b>
<b>Liabilities</b>					
Accounts payable	74,008	60,991	34,220	-	169,219
Debt securities in issue	19,377	700,000	-	-	719,377
Term borrowings	51,533	-	4,767,492	5,947,881	10,766,906
<b>Total financial liabilities</b>	<b>144,918</b>	<b>760,991</b>	<b>4,801,712</b>	<b>5,947,881</b>	<b>11,655,502</b>
<b>Net liquidity gap at 31 December 2007</b>	<b>1,157,723</b>	<b>1,333,363</b>	<b>(2,693,961)</b>	<b>1,788,582</b>	<b>1,585,707</b>
<b>Cumulative liquidity gap at 31 December 2007</b>	<b>1,157,723</b>	<b>2,491,086</b>	<b>(202,875)</b>	<b>1,585,707</b>	

The analysis by expected maturities may be summarised as follows as at 31 December 2006:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
<i>In Azerbaijani Manats</i>					
<b>Assets</b>					
Cash and cash equivalents	96,679	-	-	-	96,679
Financial lease receivables	254,232	781,880	881,645	1,767,208	3,684,965
Receivables	-	2,183	-	-	2,183
<b>Total financial assets</b>	<b>350,911</b>	<b>784,063</b>	<b>881,645</b>	<b>1,767,208</b>	<b>3,783,827</b>
<b>Liabilities</b>					
Accounts payable	-	110,997	22,447	-	133,444
Debt securities in issue	-	70,474	-	-	70,474
Term borrowings	472,319	700,000	-	1,508,194	2,680,513
<b>Total financial liabilities</b>	<b>472,319</b>	<b>881,471</b>	<b>22,447</b>	<b>1,508,194</b>	<b>2,884,431</b>
<b>Net liquidity gap at 31 December 2006</b>	<b>(121,408)</b>	<b>(97,408)</b>	<b>859,198</b>	<b>259,014</b>	<b>899,396</b>
<b>Cumulative liquidity gap at 31 December 2006</b>	<b>(121,408)</b>	<b>(218,816)</b>	<b>640,382</b>	<b>899,396</b>	

## **26 Contingencies and Commitments**

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

**Tax legislation.** Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2007 no provision for potential tax liabilities had been recorded.

**Capital expenditure commitments.** At 31 December 2007, the Company has no contractual capital expenditure commitments in respect of its premises and equipment, or any other area.

**Operating lease commitments.** At 31 December 2007, the Company does not have significant commitments in respect of non-cancellable operating leases (31 December 2006: nil).

**Compliance with covenants.** The Company is subject to certain covenants related primarily to its borrowings from EBRD. Non-compliance with such covenants may result in negative consequences for the Company, including growth in the cost of borrowings and the timing of repayment of existing facilities. Management believe that as at 31 December 2007 and during the year the Company has complied with the covenants that were in force. (31 December 2006: no covenants was in force)

## **27 Fair Value of Financial Instruments**

Fair value is the amount, at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

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

**Financial instruments carried at fair value.** Cash and cash equivalents are carried at amortised cost, which equals current fair value.

**Liabilities carried at amortised cost.** The fair value of is based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 15 and 16 for the estimated fair values of debt securities in issue and term borrowings, respectively. The discount rates used were consistent with the Company's credit risk and also depend on currency and maturity of the instrument and ranged from 14 % p.a. to 25% p.a. (2006: from 14% p.a. to 24 % p.a.)

**Finance lease receivables.** The finance lease receivables are stated net of provisions for impairment. The estimated fair value of finance lease receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Refer to Note 9 for the estimated fair value of finance lease receivables.

**28 Reconciliation of Classes of Financial Instruments with Measurement Categories**

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2007 and 31 December 2006:

	Loans and receivables 2007	Loans and receivables 2006
<i>In Azerbaijani Manats</i>		
<b>Assets</b>		
<b>Cash and cash equivalents</b>		
Cash on hand	306	6
Current accounts with resident banks	861,218	96,673
<b>Finance lease receivables</b>		
- Corporate entities	8,538,807	3,543,989
- Individuals – consumer goods	1,387,467	9,053
- Individuals – production	503,837	61,957
- Individuals – trade and services	1,103,192	69,966
- Individuals – construction	362,530	-
- Individuals – other	335,845	-
<b>Receivables</b>		
Fee and commission income receivable	138,365	-
Other	9,642	2,183
<b>Total financial assets</b>	<b>13,241,209</b>	<b>3,783,827</b>
<b>Non-financial assets</b>	<b>980,685</b>	<b>433,345</b>
<b>Total assets</b>	<b>14,221,894</b>	<b>4,217,172</b>

**29 Related Party Transactions**

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

Included in the following information, “Other related entities” refers to other companies under common control. Key management personnel consists of members of the Company’s Management Board.

At 31 December 2007 and 31 December 2006, the outstanding balances with related parties were as follows:

	31 December 2007			31 December 2006		
	Parent company	Other related entities	Key management personnel	Parent company	Other related entities	Key management personnel
<i>In Azerbaijani Manats</i>						
Cash and cash equivalents	860,149	-	-	96,676	-	-
Receivables	19,231	76,353	28,099	-	-	-
Accounts payable	-	-	60,991	-	55,503	-
Term borrowings (contractual interest rate: 2007: 14% p.a; 2006: 13% p.a)	4,724,189	-	-	1,333,915	-	-

**29 Related Party Transactions (Continued)**

The income and expense items with related parties for the year ended 31 December 2007 and 31 December 2006 were as follows:

	2007			2006		
	Parent company	Other related entities	Key management personnel	Parent company	Other related entities	Key management personnel
<i>In Azerbaijani Manats</i>						
Commission income	452,359	76,353	-	162,559	13,419	-
Interest expense	401,516	-	-	112,160	-	-
Bank service charge	64,887	-	-	26,905	-	-
Insurance service	-	25,814	2,920	-	7,908	-
Communication expense	-	-	3,720	-	-	-

Key management compensation is presented below:

<i>In Azerbaijani Manats</i>	2007	2006
Short-term benefits – salaries	99,367	79,608
<b>Total</b>	<b>99,367</b>	<b>79,608</b>

During the year ended 31 December 2007, the remuneration of members of the key management, being the members of the Board of Directors, comprised salaries and compensation classified as short-term in accordance with IAS 19 “Employee Benefits”.

Key management compensation increased significantly effective January 2008 as compensation levels have been adjusted to reflect current market conditions.

**30 Subsequent Events**

On 19 December 2008, the Company signed a new loan and letter of credit agreement with Manufacturing and Trades Trust Company Markets Limited, registered in the USA, for USD 2,225,262 with an interest rate of LIBOR+ 0.65% and a five year term.

On 4 June 2008, the Company issued 1,800 discount debt securities through a primary placement at the Baku Stock Exchange, with a par value of AZN 100 each. These discount debt securities are denominated in AZN, have an interest rate of 14% p.a. and have a period to maturity of 360 days. Debt securities were settled on the stated maturity date of 23 June 2009.

On 12 August 2008, East-West Bank S.A, registered in Luxemburg, extended a credit line of USD 5 million to the Company at an interest rate of 6% p.a and with maturity of one year.

On 16 September 2008, East-West Bank S.A, registered in Luxemburg, extended a credit line of USD 5 million to the Company at an interest rate of 6% p.a and with maturity of one year.

On 24 June 2008, EBRD extended the second tranche of funds in the amount of USD 1,500,000 under the agreement signed on 14 March 2007.

On 24 November 2008, the Company signed a new loan agreement with Pasha Bank OJSC, for AZN 300,000 with an interest rate of 19% p.a and eighteen months term. This credit agreement was converted into a credit line agreement on 11 March 2009, with a limit of AZN 600,000

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, and lower liquidity levels across the banking sector and very high volatility in local and international stock markets. Refer to Note 2. As a result of the crisis, there may be an impact on the Company's ability to raise finance in the future or demand for entering into lease agreements in the current economic environment.