

**‘Registered’**  
The Ministry of Justice  
The Republic of Azerbaijan  
Registration N 2738  
15 January 2001

**‘Approved’**  
by Resolution of the Management  
Board of the Central Bank  
of the Republic of Azerbaijan dated  
29 December 2001  
Protocol N 26

Minister \_\_\_\_\_F.F.Mammadov  
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Chairman of the Management Board

**Regulations  
on lease accounting in the banking system  
of the Republic of Azerbaijan**

(with amendments of 16 December 2004)

**1. General provisions**

- 1.1. These Regulations have been developed in accordance with the Laws of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan, the Law on Banks and Banking Activity in the Republic of Azerbaijan, the Civil Code of the Republic of Azerbaijan, and other legislative acts of the Republic of Azerbaijan, as well as the regulations of the Central Bank of the Republic of Azerbaijan and determine lease accounting rules in the banking system of the Republic of Azerbaijan (hereinafter – the bank).
- 1.2. The rules for signing lease agreements in banks and other lease related relations are regulated by the civil legislation of the Republic of Azerbaijan.
- 1.3. When conducting lease operations, banks are guided by the provisions of the Tax Code of the Republic of Azerbaijan for taxation purposes.

**2. Definitions**

- 2.1. A lease agreement is an agreement on rental of property under which a lessor allows a lessee both to use the premise it has rented or use the right and benefit and generate income.
- 2.2. Finance lease – a lease that transfers all rented asset related risks and reward to the lessee. The ownership of the asset may and may not be transferred to the lessee under contractual terms and conditions upon expiry of the lease.
- 2.3. Current lease - any lease other than the finance lease.

- 2.4. Lease period – period agreed upon between the parties on use of the leased (rented) asset.
- 2.5. Lease payments – payments made by the lessee in installments over the lease period on a contractual basis.
- 2.6. Balance value of an asset – the value the asset is recorded at in lessor's accounting report (balance sheet) as of the reported period.
- 2.7. Lease value of an asset – value of rented asset agreed upon between parties.

### **3. Lease classification**

- 3.1. In financial statements lease is classified as finance lease and current lease.
- 3.2. In financial statements, lease is recorded as finance lease if at least one of the following terms is available:
  - the lessee receives the ownership right over the asset at the end of the lease agreement;
  - the lessee obtains the right to purchase the asset at a discount;
  - lease period takes over 75% of the asset's useful life;
  - the size of lease payments on finance lease takes over 90% of the asset's market value.

### **4. Finance lease accounting**

#### Accounting by a lessee bank:

- 4.1. In lessee's financial statements finance leased asset is recorded in relevant fixed assets or intangible assets accounts at lease value and amortized under the relevant legislation. At the same time, the finance lease is recognized as a liability before the lessor in the 'finance lease operations' account.
- 4.2. In lessee's financial statements payments under specified interest rates is divided into installments over the lease period in order to maintain the permanent interest rate per period and recognized in income statement of the fiscal year as an expense.
- 4.3. Payment for the value of finance leased asset is recognized as decrease in liability before the lessor over the lease period and recorded in the 'finance lease operations' account.

Accounting by a lessor bank:

- 4.4. In lessor's financial statements finance leased assets are removed from relevant fixed and intangible assets accounts, recognized as accounts receivable and recorded in the 'finance lease operations' account at lease value.
- 4.5. In lessor's financial statements receipts under specified interest rates are divided into installments over the lease period in order to maintain the permanent interest rate per period and recognized in income statement of the fiscal year as income.
- 4.6. Difference between lease and balance values of the leased asset is recognized as profit or loss in profit and loss account.
- 4.7. Lease payments received for the finance leased asset over the lease period are recognized as write-off of accounts receivable and recorded in 'finance lease operations' account.
- 4.8. Finance leased asset is recorded at residual book value, if it is returned to the lessor upon expiry of the lease period.

**5. Current lease accounting**

Accounting by a lessee bank:

- 5.1. In lessor's financial statements current leased asset is accounted for in the 'leased assets' off-balance sheet account.
- 5.2. In lessor's financial statements lease payments are divided into installments over the lease period and recognized in income statement of the fiscal year as an expense on a monthly basis and recorded in the 'lease payments' expense account.

Accounting by a lessor bank:

- 5.3. In lessor's financial statements current leased asset is recorded in relevant sub-accounts of the relevant fixed and intangible assets account and amortized under the relevant legislation.
- 5.4. In lessor's financial statements incoming lease payments are divided into installments over the lease period and recognized in income statement

of the fiscal year as income on a monthly basis and recorded in the 'lease payments' income account.

## **6. Data disclosure**

6.1. The lessee should disclose the following finance lease data in financial statements:

- balance value per asset type as of the reported period;
- data on reconciliation of total minimum lease payments as of the reported period and their discounted value. These data should be disclosed on each of the following periods:
  - not more than one year;
  - over one year, but not more than five years;
  - over five years.
- lease fee recognized in income over the period;
- general description of substantial finance lease agreements signed by the lessee, including, but not limited to, the following information:
  - grounds on which lease payments are determined;
  - notes on put and call options and variable prices and information on their terms and conditions;
  - limitations on dividends, additional debt and other relations (operations) under the lease agreement.

6.2. The lessee should disclose the following finance lease data in financial statements:

- total future minimum lease payments on unterminated agreements of the lease on each of the following periods:
  - not more than one year;
  - over one year, but not more than five years;
  - over five years.
- minimum lease payments, lease fee and lease payments recognized in income over the period;
- general description of substantial lease agreements **signed by the lessee** including, but not limited to, the following:
  - grounds on which lease payments are determined;

- notes on put and call options and variable prices and information on their terms and conditions;
- limitations on dividends, additional debt and other relations (operations) under the lease agreement.

6.3. The lessor should disclose the following finance lease data in financial statements:

- information on reconciliation of the amount of total investments on finance lease as of the reported date and discounted value of accounts receivable on minimum lease payments as of the reported period. These data should be disclosed on each of the following periods:
  - not more than one year;
  - over one year, but not more than five years;
  - over five years.
- un-generated financial income;
- unguaranteed residual value related to lessor's account;
- accumulated reserve to pay for uncollected debt on minimum lease payments;
- lease payments recognized in income;
- general description of substantial lease agreements signed by the lessor.

6.4. The lessor should disclose the following finance lease data in financial statements:

- total balance amount per asset type, accumulated amortization and losses from depreciation as of the reported date:
  - amortization recorded in income over the period;
  - losses from decrease in value accounted for in income over the period;
  - losses from decrease in prepaid cost over the period;
- total future minimum lease payments on unterminated agreements of the lease on each of the following periods:
  - not more than one year;
  - over one year, but not more than five years;
  - over five years.
- total lease payments accounted for in income;
- general description of substantial lease agreements signed by the lessor.

## **7. Final provisions**

7.1. These Regulations take effect from the date of state registration.

### **Methodological instructions regarding the Regulations on lease accounting in the banking system of the Republic of Azerbaijan**

The following accounting entry is made on the current lease:

**Lessee:**

when the lessee calculates lease fee:

Dr The 'Lease fee' expense account

Cr 'Other payables' account

when the lessee pays the lease fee:

Dr 'Other payables' account

Cr Cash/ correspondent account/ customer account

**Lessor:**

The following accounting entry is made when the lessor calculates the lease fee:

Dr 'Other receivables' account

Cr 'Lease income' income account

when the lessor receives the lease fee:

Dr Cash/ correspondent account

Cr 'Other receivables' account

when the lessor calculates depreciation on the leased asset:

Dr Depreciation cost of relevant fixed and intangible assets

Cr Depreciation on relevant fixed and intangible assets

The following accounting entry is made on finance lease:

**Lessee:**

when the lessee rents an asset:

Dr Relevant fixed or intangible assets account

Cr 'Finance lease account'

when the lessee calculates finance lease interest payments:

Dr 'Lease fee' expense account  
Cr 'Calculated payable interest on other operations' account

when the lessee makes finance lease interest payments:

Dr 'Calculated payable interest on other operations' account  
Cr Cash/ correspondent account/ customer account

when the lessee makes finance lease payments:

Dr 'Finance lease account'  
Cr Cash/ correspondent account/ customer account

If an asset is transferred to ownership of the lessee, depreciations is calculated on it under the relevant legislation.

If, at the end of the lease period, the leased asset is returned to the lessee, the following accounting entry is made on the residual value:

Dr 'Finance lease account'  
Dr Accumulated depreciation on relevant fixed or intangible assets  
Cr Relevant fixed or intangible assets account

Lessor:

The following accounting entry is made when the lessor leases and asset:

Dr 'Finance lease account'  
Dr Accumulated depreciation on relevant fixed or intangible assets  
Cr Relevant fixed or intangible assets account

when the lessor calculates finance lease interest receivables:

Dr 'Interest receivables on other short-term loans and other operations'  
Cr 'Lease income' income account

when the lessor receives finance lease interest:

Dr Cash/ correspondent account  
Cr 'Interest receivables on other short-term loans and other operations'

when the lessor receives finance lease payments:

Dr Cash/ correspondent account

Cr 'Finance lease account'

The following accounting entry is made on the residual value of the asset when the leased asset is returned at the end of the lease period:

Dr Relevant fixed or intangible assets account

Cr 'Finance lease account'