

---

# **"A-Group Insurance Company" OJSC**

Financial Statements  
for the Year Ended 31 December 2014  
and Independent Auditor's Report

---

# **"A-Group Insurance Company" OJSC**

Financial Statements  
for the Year Ended 31 December 2014  
and Independent Auditor's Report

## Contents

Independent Auditor's Report .....	3
Statement of Management's Responsibilities .....	4
Statement of Financial Position .....	5
Statement of Comprehensive Income .....	6
Statement of Cash Flows .....	7
Statement of Changes in Equity .....	8
Notes to the Financial Statements	
1. Principal Activities of the Company .....	9
2. Operating Environment of the Company .....	9
3. Basis of Presentation .....	10
4. Summary of Significant Accounting Policies .....	13
5. Critical Accounting Estimates and Judgments .....	19
6. Cash and Cash Equivalents .....	21
7. Deposits with Banks .....	21
8. Receivables .....	21
9. Prepayments .....	22
10. Reinsurance Assets .....	22
11. Deferred Acquisition Costs .....	22
12. Property and Equipment .....	22
13. Investment Property .....	23
14. Taxation .....	23
15. Provision for Unearned Premiums .....	25
16. Provision for Claims .....	25
17. Payables .....	26
18. Deferred Commission Income .....	26
19. Share Capital and Earnings Per Share .....	26
20. Premiums and Claims Analysis .....	27
21. Net Acquisition Costs .....	29
22. Operating Expenses .....	29
23. Interest Income .....	29
24. Other Income .....	30
25. Risk Management .....	30
26. Capital Management .....	34
27. Contingent Liabilities .....	34
28. Fair Value of Financial Instruments .....	34
29. Reconciliation of Categories of Financial Instruments with Measurement Categories .....	35
30. Related Party Transactions .....	35
31. Subsequent Events .....	35

## Independent Auditor's Report

To the Shareholder and the Supervisory Board of "A-Group Insurance Company" OJSC

We have audited the accompanying financial statements of "A-Group Insurance Company" Open Joint Stock Company ("the Company"), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Basis for Qualified Opinion

As explained in Notes 12 and 13 to the financial statements management has not stated buildings and investment property at revalued amounts, which constitutes a departure from the Company's accounting policy. Since revaluation surplus enters into the determination of the financial position and total comprehensive income we were unable to determine whether any adjustment might have been necessary in respect of carrying value of buildings, investment property, revaluation surplus and deferred tax assets as at 31 December 2014 reported in the statement of financial position and total comprehensive income for the year ended 31 December 2014 reported in the statement of comprehensive income. The information needed to quantify the effects of this departure on the financial position and the financial performance of the Company is not reasonably determinable.

### Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of "A-Group Insurance Company" Open Joint Stock Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*BDO Azerbaijan LLC*

7 August 2015

## Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2014

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the financial statements of "A-Group Insurance Company" OJSC ("the Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at 31 December 2014, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

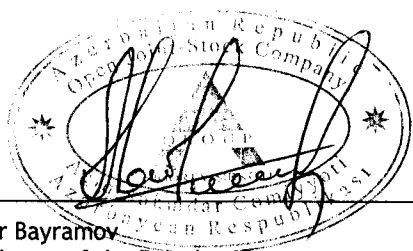
In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

On behalf of the Company's management the financial statements for the year ended 31 December 2014 were authorised for issue on 7 August 2015 by:



Anar Bayramov  
Chairman of the Board



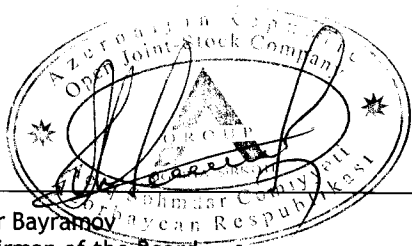
Natavan Imamgulyeva  
Chief Accountant

"A-Group Insurance Company" OJSC  
Baku, Azerbaijan

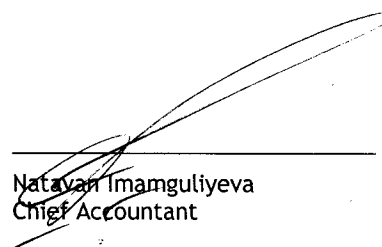
7 August 2015

"A-Group Insurance Company" OJSC  
Statement of Financial Position as at 31 December 2014  
in Azerbaijani manats, unless otherwise indicated

	Note	2014	2013
<b>ASSETS</b>			
Cash and cash equivalents	6	2,341,313	1,818,848
Deposits with banks	7	11,448,914	10,146,149
Receivables	8	3,954,965	3,351,876
Prepayments	9	-	33,729
Reinsurance assets	10	1,679,530	2,295,141
Deferred acquisition costs	11	398,151	310,098
Property and equipment	12	406,853	467,929
Investment property	13	357,100	357,100
Deferred tax assets	14	39,166	102,655
Other assets		16,871	36,236
<b>Total assets</b>		<b>20,642,863</b>	<b>18,919,761</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Provision for unearned premiums	15	9,264,545	8,442,335
Provision for claims	16	1,045,743	1,632,598
Payables	17	780,765	1,252,043
Deferred commission income	18	183,280	500,274
Taxes payable	14	245,265	-
Other liabilities		15,307	13,384
<b>Total liabilities</b>		<b>11,534,905</b>	<b>11,840,634</b>
<b>Equity</b>			
Share capital	19	7,308,250	5,400,200
Revaluation reserve		87,036	92,090
Retained earnings		1,712,672	1,586,837
<b>Total equity</b>		<b>9,107,958</b>	<b>7,079,127</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>20,642,863</b>	<b>18,919,761</b>



Anar Bayramov  
Chairman of the Board



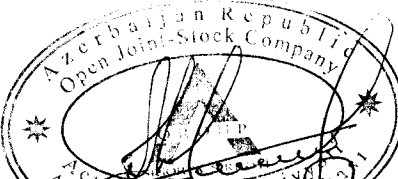
Natavan Imamguliyeva  
Chief Accountant

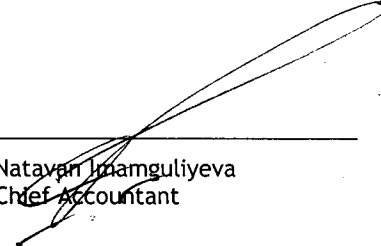
7 August 2015

The notes set out on pages 9 to 36 are an integral part of these financial statements.

**"A-Group Insurance Company" OJSC**  
**Statement of Comprehensive Income for the Year Ended 31 December 2014**  
**in Azerbaijani manats, unless otherwise indicated**

	Note	2014	2013
Gross premiums written	20	12,307,390	11,115,376
Premiums ceded	20	(1,644,128)	(1,874,150)
Change in provision for unearned premiums, net	20	(1,298,267)	(217,883)
<b>Premiums earned, net</b>		<b>9,364,995</b>	<b>9,023,343</b>
Claims paid	20	(7,557,435)	(7,077,075)
Claims ceded	20	796,227	607,833
Change in provision for claims, net	20	447,386	(800,496)
<b>Claims incurred, net</b>		<b>(6,313,822)</b>	<b>(7,269,738)</b>
Net acquisition gains/(costs)	21	139,927	(375,564)
Operating expenses	22	(1,456,084)	(1,974,189)
Interest income	23	765,224	586,330
Gain on realisation of revaluation reserve		-	2,077,018
Other income	24	145,436	435,940
<b>Profit before tax</b>		<b>2,645,676</b>	<b>2,503,140</b>
Income tax charge	14	(605,997)	(390,593)
<b>Net profit for the year</b>		<b>2,039,679</b>	<b>2,112,547</b>
<b>Other comprehensive income</b>			
Depreciation charge relating to components of other comprehensive income		(6,317)	(19,687)
Disposal of assets relating to components of other comprehensive income		-	(2,077,018)
Income tax relating to components of other comprehensive income		1,263	3,937
<b>Other comprehensive loss for the year, net of tax</b>		<b>(5,054)</b>	<b>(2,092,768)</b>
<b>Total comprehensive income for the year</b>		<b>2,034,625</b>	<b>19,779</b>
Earnings per share (basic and diluted)	19	263.18	272.59

  
Anar Bayramov  
Chairman of the Board

  
Natavan Ibramguliyeva  
Chief Accountant

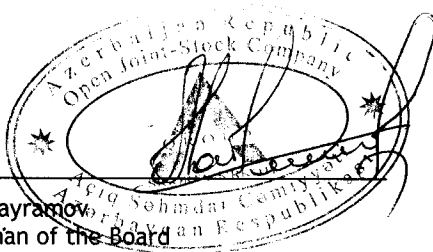
7 August 2015

The notes set out on pages 9 to 36 are an integral part of these financial statements.

**"A-Group Insurance Company" OJSC**  
**Statement of Cash Flows for the Year Ended 31 December 2014**  
**in Azerbaijani manats, unless otherwise indicated**

	Note	2014	2013
<b>Cash flows from operating activities</b>			
Premiums received		11,692,468	10,765,396
Premiums paid		(981,426)	(1,851,532)
Claims paid		(7,972,908)	(6,697,059)
Reinsurance benefits received		290,215	493,685
Operating expenses paid		(1,300,459)	(1,462,083)
Commission paid		(476,573)	(576,573)
Interest received		728,133	611,811
Income tax paid		(251,000)	(732,835)
Other income received		81,644	80,831
<b>Net cash flow from operating activities</b>		<b>1,810,094</b>	<b>631,641</b>
<b>Cash flows from investing activities</b>			
Investment in deposits with banks		(1,265,958)	(1,473,897)
Acquisition of property and equipment		(16,706)	(118,587)
Proceeds from disposal of property and equipment		-	1,454,700
<b>Net cash flow from investing activities</b>		<b>(1,282,664)</b>	<b>(137,784)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		-	(622,403)
<b>Net cash flow from financing activities</b>		<b>-</b>	<b>(622,403)</b>
Effect of exchange rate differences		(4,965)	(7,463)
Net increase/(decrease) in cash and cash equivalents		522,465	(136,009)
Cash and cash equivalents at the beginning of the year	6	1,818,848	1,954,857
<b>Cash and cash equivalents at the end of the year</b>	<b>6</b>	<b>2,341,313</b>	<b>1,818,848</b>

Anar Bayramov  
Chairman of the Board



Natavan Lajmuguliyeva  
Chief Accountant

7 August 2015

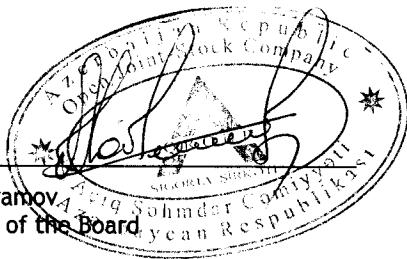
The notes set out on pages 9 to 36 are an integral part of these financial statements.



**"A-Group Insurance Company" OJSC**  
**Statement of Changes in Equity for the Year Ended 31 December 2014**  
**in Azerbaijani manats, unless otherwise indicated**

	Share capital	Revaluation reserve	Retained earnings	Total
1 January 2013	4,719,750	2,184,860	777,143	7,681,753
Increase in share capital	680,450	-	(680,450)	-
Net profit for the year	-	-	2,112,547	2,112,547
Other comprehensive loss for the year, net of tax	-	(2,092,770)	-	(2,092,770)
Dividends declared			(622,403)	(622,403)
<b>31 December 2013</b>	<b>5,400,200</b>	<b>92,090</b>	<b>1,586,837</b>	<b>7,079,127</b>
Increase in share capital	1,908,050		(1,908,050)	-
Net profit for the year	-	-	2,039,679	2,039,679
Other comprehensive loss for the year, net of tax	-	(5,054)	-	(5,054)
Dividends declared	-	-	(5,794)	(5,794)
<b>31 December 2014</b>	<b>7,308,250</b>	<b>87,036</b>	<b>1,712,672</b>	<b>9,107,958</b>

Anar Bayramov  
Chairman of the Board



Natavan Imamgulyeva  
Chief Accountant

7 August 2015

The notes set out on pages 9 to 36 are an integral part of these financial statements.

## **1. Principal Activities of the Company**

"A-Group Insurance Company" Open Joint Stock Company ("the Company") was set up in the Republic of Azerbaijan in 1995 as "Gruppa A" Limited Liability Insurance Company. In January 2009 the Company was re-registered as an open joint-stock company with identification number 9900027621. The Company is principally engaged in rendering non-life insurance and reinsurance services. The Company operates under the insurance license issued by the Ministry of Finance of the Azerbaijan Republic. Insurance business covered by the Company includes, but is not limited to, medical, cargo, property, casualty, third party liability, vehicle and reinsurance.

The Company's registered office is at 172, L. Tolstoy Street, Baku, Azerbaijan, and its headquarter is located at 87A Reshid Behbudov Street, Baku, Azerbaijan. The Company has one branch in Ganja.

The sole owner and the ultimate controlling party of the Company is Mr. Sabir Adnayev, an Azerbaijani national.

The average number of the Company's employees in 2014 was 56 (2013: 52).

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

### **General**

Over recent years, Azerbaijan has undergone substantial political and economic changes. As an emerging market, Azerbaijan does not possess a well-developed commercial infrastructure, which generally exists in more mature business markets. Laws and regulations affecting businesses operating within the country are subject to rapid change. In addition, continued economic stability is dependent to a large extent on the effectiveness of fiscal and monetary measures taken by the government, regulatory developments, decisions of international lending organisations, and other actions beyond the Company's control.

Although recently there have been positive economic signs in Azerbaijan, the long-term prospects for the Azerbaijani economy remain uncertain. National economy is dependent of export of hydrocarbon resources. As a result, the Company's assets and operations could be at risk resulting from any adverse changes in the political and business environment.

### **Financial market transactions**

The global financial crisis has resulted in, among other things, global liquidity crunch which led to contraction of the international and domestic capital market, lower liquidity levels across the Azerbaijani banking sector and very high uncertainty in the domestic and foreign equity markets. The uncertainties in the global financial market have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and other countries, however its impact on financial system of Azerbaijan has been relatively limited. Currently, it is impossible to fully assess the influence of the ongoing crisis or avoid its impact.

Investors have been re-evaluating their exposure to risks, which resulted in reduced or closed limits on transactions conducted in Azerbaijan, thereby adding to volatility. Such circumstances can affect the ability of the Company to obtain new borrowings at terms and conditions similar to those applied to earlier transactions.

Borrowers and debtors of the Company may also be affected by the repercussions of the financial crisis, which can in turn impact their ability to meet their financial obligations to the Company. To the extent that information is available, management has adequately reflected revised estimates of expected future cash flows in their impairment assessments. These financial statements do not include the adjustments reflecting the impact on the Company's financial position of further deterioration in the liquidity on the financial markets and the increased volatility in the currency and equity markets.

### **Inflation**

In 2014 inflation in Azerbaijan decreased. The official inflation indices for the last three years are given in the table below:

<b>Year ended</b>	<b>Inflation for the period</b>
31 December 2014	1.4%
31 December 2013	2.4%
31 December 2012	1.2%

### **Currency transactions**

National currency of Azerbaijan - manat - is the main currency used within the country. Foreign currencies, in particular the US dollars and Euro, play a significant role in measuring economic parameters of many business transactions in Azerbaijan. The table below shows the exchange rates of Azerbaijani manat ("AZN") relative to US dollars ("USD") and Euro ("EUR"):

<b>Date</b>	<b>USD</b>	<b>EUR</b>
31 December 2014	0.7844	0.9522
31 December 2013	0.7845	1.0780

### **3. Basis of Presentation**

#### **General principles**

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company maintains its accounting records in accordance with the applicable legislation of the Republic of Azerbaijan. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

#### **Functional and presentation currency**

These financial statements are presented in Azerbaijani manats being the Company's functional and presentation currency. AZN is the prevailing currency in the primary economic environment where the Company conducts its ordinary activities and in which majority of receipts from operating activities are retained.

#### **Estimates and assumptions**

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements preparation, and the reported amounts of revenues and expenses during the reporting period. Issues that require best estimate and are most significant for the financial statements are disclosed in Notes 10, 11, 12, 13, 14, 15, 16, and 18.

#### **Going concern**

These financial statements reflect the Company management's current assessment of the impact of the Azerbaijani business environment on the operations and the financial position of the Company. The future economic direction of Azerbaijan is largely dependent upon the effectiveness of measures undertaken by the Azerbaijani Government and other factors, including regulatory and political developments, which are beyond the Company's control. The Company's management cannot predict what impact these factors can have on the Company's financial position in future.

For prompt management of liquidity risk the Company regularly monitors external factors, which could influence the Company's liquidity level, and forecasted cash flows. For the medium- and long-term liquidity risk management the Company analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Company sets liquidity gap limits. The set limits are periodically reviewed to reflect the changes in external and internal environment.

### **Changes in Accounting Policies**

#### Changes in Accounting Policies

The accounting policies adopted are generally consistent with those of the previous financial year.

#### a) New standards, interpretations and amendments effective from 1 January 2014

A number of new standards, interpretations and amendments effective for the first time for periods beginning on (or after) 1 January 2014, have been adopted in these financial statements. The nature and effect of each new standard, interpretation and amendment adopted by the Company is detailed below. Note: not all new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2014 effect the Company's annual financial statements.

Amendment to IAS 32 "Financial Instruments: Presentation" Offsetting Financial Assets and Financial Liabilities and the related disclosure (applied retrospectively for annual periods beginning on or after 1 January 2014; early application is permitted). The amendments to IAS 32 clarify existing application issues relating to the offsetting requirements.

Amendment to IFRS 7 "Financial Instruments: Disclosure" Offsetting Financial Assets and Financial Liabilities and the related disclosure (applied retrospectively for annual periods beginning on or after 1 January 2014; early application is permitted). The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

IFRIC 21 "Levies" (applied or annual periods beginning on or after 1 January 2014). The interpretation provides guidance on when to recognize a liability for a levy imposed by a government. The obligating event for the recognition of a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. It also provides guidance on recognition of a liability to pay levies: the liability is recognized either progressively if the obligating event occurs over a period of time, or when the minimum threshold is reached if an obligation is triggered on reaching that minimum threshold. The interpretation is not expected to impact the Company's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities" (applied for annual periods beginning on or after 1 January 2014, effective retrospectively with some transitional provisions). The amendments define "investment entities" and provide them an exemption from the consolidation of subsidiaries; instead, an investment entity is required to measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 / IAS 39 (the exception does not apply to subsidiaries that provide services relating to the investment entity's investment activities). An investment entity is required to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements, and additional disclosures are introduced. The amendments are not expected to impact the Company's financial statements.

Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" (applied for annual periods beginning on or after 1 January 2014). The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" (applied for annual periods beginning on or after 1 January 2014). The amendments permit the continuation of hedge accounting in a situation where the counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives'), as a consequence of laws or regulations, if specific conditions are met. The amendments are not expected to impact the Company's financial statements.

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) defines IAS 19 "Employee Benefits" to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognized as a reduction in the service cost in the period in which the related service is rendered.

b) New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the Company's future financial statements:

IFRS 9 "Financial Instruments" (effective for annual reporting periods beginning on or after 1 January 2013; however, the date can be postponed to 1 January 2015; early adoption is permitted). This standard was issued in November 2009 as the first phase of replacing IAS 39 and replaces those parts of IAS 39 that relate to classification and measurement of financial assets. The second phase of replacing this standard regarding the classification and measurement of financial liabilities took place in October 2010. The main differences of the new standard are as follows:

- financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- an instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss;
- all equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) amends IFRS 11 "Joint Arrangements" to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 "Business Combinations") to

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11.
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not re-measured).

Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38) amends IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" to:

- clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment.
- introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Management believes that the application of other new and revised IFRSs will not have a material impact on the financial statements.

#### **4. Summary of Significant Accounting Policies**

##### ***Cash and cash equivalents***

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand and current bank account balances of the Company, and other short-term highly liquid investments with original maturities of three months or less. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

##### ***Financial assets***

The Company classifies its financial assets in the following categories:

- loans and receivables;
- financial assets available for sale.

The Company determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

##### ***Initial recognition of financial instruments***

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

All financial assets are initially recognised at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial instrument.

##### ***Fair value measurement***

The fair value of financial instruments traded on the active market as at the reporting date is determined based on the market or dealers' quotations including transaction costs.

If a quoted market price is not available, the fair value of financial assets and financial liabilities recorded in the statement of financial position is estimated on the basis of market quotations for similar financial instruments or using various valuation techniques, including mathematical models. Where mathematical models are used, inputs are based on observable market data or judgment.

Judgment is based on such considerations as the time value of money, credit risk level, volatility of the instrument, market risk level and other applicable factors.

##### ***Impairment of financial assets***

The Company assesses on each closing date whether there is any objective evidence that the value of a financial asset item or company of items has been impaired. Impairment losses are recognised in the statement of comprehensive income as they are incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and has an impact on the amount or timing of the estimated future cash flows of the financial asset or company of financial assets that can be reliably estimated. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a company of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

##### ***Derecognition of financial assets***

A financial asset (or, where applicable, a part of a financial asset, or part of a company of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset; or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and
- the Company either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### **Deposits with banks**

Deposits placed with banks are recognised when the Company issues cash to banks and has no intention to get involved in trading in non-derivative financial instruments not quoted in an active market and repayable on the fixed or determinable date. Deposits with banks are carried at amortised cost and recorded until repayment.

#### **Insurance and investment contracts - classification**

The Company enters into contracts which have insurance or financial risk, or both.

Insurance contracts are contracts where one party (the insurer) accepts a substantial insurance risk from the other party (the insured), agreeing to make payment to the insured upon occurrence in the future of the agreed unforeseen event (insured event) which had an adverse effect on the reinsured.

Such contracts are also exposed to financial risk.

Insurance risk arises when at least one of the following is uncertain at the inception of the insurance contract:

- whether an insured event will occur;
- when it will occur; or
- how much the insurer will need to pay if it occurs.

The Company does not consider the following risks as insurance risks:

- financial risk;
- risk that did not exist before the conclusion of the contract and resulted from its signing;
- risk of cancellation (prolongation) of the contract earlier than the issuer expected when determining the contract price;
- risk of unforeseen increase in administrative expenses related to the contract.

The Company classifies a contract as an insurance contract only if it cedes significant insurance risk.

Insurance risk is significant if, and only if, an insured event could cause the Company to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Contracts that have a legal form of insurance, but contain financial risk with no significant insurance risk are investment contracts.

Contracts that have a legal form of insurance, but that do not imply the assumption of all significant insurance risks by the insurer and are not recognised as investment contracts are service contracts under IFRS.

The following IFRSs are applied in respect of a Company of contracts that have the legal form of insurance:

- insurance contracts - recognition and measurement are made in accordance with IFRS 4;
- investment contracts - recognition and measurement are made in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

#### **Description of insurance products**

The Company accepts for insurance the following insurance risks and portfolios:

- Insurance from fire;
- Vehicle insurance;
- Liability insurance;
- Travel insurance;
- Medical insurance;
- Construction insurance;
- Cargo insurance;
- Accident insurance;

- Borrower's insurance;
- Other insurance.

#### **Non-Life Insurance**

**Insurance premiums.** Premiums under insurance contracts are recorded as revenue on the date the insurance risk is assumed. The provision for unearned premiums is recognised on the same date and is subsequently recorded as income in proportion to the contract term.

**Provision for unearned premiums.** Provision for unearned premiums represents the portion of premiums written applicable to the unexpired term of the insurance contract as at the reporting date.

**Claims adjustment expenses.** Claims adjustment expenses are recorded in the statement of comprehensive income as incurred.

**Provisions for claims.** Provisions for claims are the estimated liability to settle future claims and include the provision for claims reported but not paid (RBNP) and provision for claims incurred but not reported (IBNR). The estimated claims adjustment expenses are included in RBNP and IBNR. RBNP is set up based on the claims that were reported but are still outstanding at the reporting date. The estimate is made on the basis of the information obtained by the Company when the insured events are considered, including information obtained subsequent to the reporting date. IBNR is actuarially estimated by the Company by each class of insurance business based on historical payment patterns for prior claims. The methods applied to estimate the provisions are regularly reviewed. The resulting adjustments are recorded in the statement of comprehensive income as they arise. The claims provision is estimated on an undiscounted basis, as the period between the claim filing and its settlement is rather short.

**Unexpired risk provision.** Unexpired risk provision is made for any deficiencies arising when unearned premiums are insufficient to meet expected claims and expenses to be borne by the Company after the end of the financial year under insurance contracts in effect at the reporting date. Unexpired risk provision is based upon loss development historical patterns and future loss projections (including claims adjustment expenses), and the level of expenses required to cover the current portfolio. Expected losses are calculated having regard to events that have occurred prior to the reporting date. For the financial reporting purposes the provision for unexpired risk is written off against deferred acquisition costs.

#### **Reinsurance**

The Company cedes reinsurance in the normal course of business. Reinsurance does not extinguish the Company's liability to its customers.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsured assets comprise receivables from reinsurers on settled claims, including claims handling expenses, reinsurers' share of claims provision and deferred acquisition costs. Reinsurance payables are the Company's liabilities in respect of premiums payable for reinsurance.

The Company assesses its reinsurance assets for impairment on a regular basis using the same accounting policies adopted for financial assets held at amortised cost. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of comprehensive income.

#### **Deferred commission income**

Commission income represent commission associated with reinsurance business and is primarily related to the reinsurance of mandatory and voluntary insurance contracts. Commission income is deferred and amortised over the contract period of reinsured policy. Commission income is estimated by each class of insurance.

#### **Deferred acquisition costs ("DAC")**

Acquisition costs represent commission expenses associated with obtaining insurance business and vary with and are primarily related to the acquisition of new and renewal insurance contracts. Acquisition costs are deferred and amortised over the period in which the related premiums are earned. Deferred acquisition costs are estimated by each class of insurance. At the time of policy issue and each reporting date, DAC are subject to recoverability testing by class of insurance based on future assumptions.

Acquisition costs on reinsurance, claim settlement and general and administrative expenses include personnel subsistence expenses, taxes other than income tax, depreciation, communication services, which are allocated



among respective expense items subject to responsibilities of the Company's officials and in proportion to actual time spent.

### **Financial liabilities**

Financial liabilities are classified as financial liabilities carried at amortised cost.

Initially, a financial liability shall be measured by the Company at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

### **Financial liabilities carried at amortised cost**

Financial liabilities carried at amortised cost are payables to suppliers, taxes payable, and borrowed funds. Borrowed funds include regular and subordinated loans received by the Company and are recorded as cash is advanced to the Company.

### **Offsetting of financial instruments**

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

### **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and impairment provision, where required.

At each reporting date the Company assesses whether there is any indication of impairment of property and equipment. If any such indication exists, the Company estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the decrease in the carrying amount is charged to the statement of comprehensive income to the extent it exceeds the previous revaluation surplus in equity. 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 recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recorded within other expenses in the statement of comprehensive income.

Repairs and maintenance are charged to the statement of comprehensive income when the expense is incurred.

Construction in progress is carried at cost less impairment provision, where required. As soon as construction is completed, assets are reclassified as property and equipment at their carrying value at the date of reclassification. Construction in progress is not depreciated until the asset is available for use.

### **Depreciation**

Depreciation of property and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight-line basis over the following useful lives of the assets:

- Buildings - 22 years;
- Furniture - 5 years;
- Computers and office equipment - 4 years;
- Motor vehicles - 4 years.

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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

#### **Intangible assets acquired separately**

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

#### **Investment property**

Investment property is property held by the Company to earn rentals or for capital appreciation or both, rather than for: (a) use in the Company's ordinary course of business, for administrative purposes; or (b) sale in the ordinary course of business.

Investment property is initially recorded at the cost of acquisition and subsequently remeasured to the fair value based on its market value. The market value of the Company's investment property is obtained from reports of independent appraisers, who have recognised and relevant professional qualifications and experience in valuation of property of similar location and category. Changes in the fair value of investment property are recorded in the statement of comprehensive income as a separate line.

The Company records rentals in the statement of comprehensive income as gain/(loss) on revaluation of investment property. Direct operating expenses (including repair and maintenance) arising from investment property are recorded as incurred within other expenses relating to investment activity in the statement of comprehensive income.

If the investment property is used by the Company for its own operating activities, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Property under construction and renovation intended for subsequent use as investment property is recorded as investment property.

#### **Operating lease - the Company as a lessor**

Leases of property under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as income on a straight-line basis over the lease term and included into other income in the statement of comprehensive income.

#### **Share capital**

Statutory share capital is recorded at its nominal amount actually paid in in accordance with the Company's constitution documents. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

#### **Dividends**

Dividends are recognised when declared at the General Meeting of Shareholders of the Company.

#### **Contingent assets and liabilities**

Contingent assets are not recognised in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the statement of financial position but disclosed in the financial statements unless the possibility of any outflow in settlement is remote.

#### **Taxation**

The income tax charge comprises current tax and deferred tax and is recorded in the statement of comprehensive income. Income tax expense is recorded in the financial statements in accordance with the applicable legislation of Azerbaijan. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted during the reporting period.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current or prior periods. Tax amounts are based on estimates if financial statements are authorised prior to filing relevant tax returns.

Deferred income tax is provided using the balance sheet liability method for tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carryforwards will be utilised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets for deductible temporary differences and tax loss carryforwards are recorded to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Judgment is required to determine the amount of deferred tax assets that may be recognised in financial statements based on probable periods and amounts of future taxable profits and future tax planning strategies.

Azerbaijan also has various other taxes, which are assessed on the Company's activities. These taxes are recorded within operating expenses in the statement of comprehensive income.

#### ***Income and expense recognition***

Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income includes coupons earned on fixed-income financial assets and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are recorded on an accrual basis after the service is provided. Loan origination fees for loans that are not yet provided, but are probable of being drawn down, are recognised within other assets and are subsequently taken into account in calculation of effective yield on the loan. Fees and commissions arising from negotiating a transaction for a third party, such as the acquisition of loans, shares and other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the statement of comprehensive income. Investment portfolio and other advisory service fees are recognised based on the applicable service contracts.

#### ***Employee benefits and social insurance contributions***

The Company pays social security contributions in the territory of Azerbaijan. These contributions are recorded on an accrual basis. The Company does not have pension arrangements separate from the state pension system of Azerbaijan. Wages, salaries, contributions to the State Social Protection Fund, paid annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Company's employees render the related service.

#### ***Segment reporting***

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Company's segmental reporting is based on types of insurance products.

The Company measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

- its reported revenue, from both external customers and intersegment sales or transfers, is 10 percent or more of the combined revenue, internal and external, of all operating segments; or
- the absolute measure of its reported profit or loss is 10 percent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- its assets are 10 percent or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75 percent of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set).

### **Foreign currency**

Foreign currency transactions are translated into the functional currency at the Central Bank of the Republic of Azerbaijan exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the Central Bank's exchange rate ruling at the reporting date. Foreign exchange gains and losses resulting from revaluation of transactions in foreign currency are recorded in the statement of comprehensive income within foreign exchange translation gains less losses. Non-monetary items denominated in foreign currency and carried at cost are restated at the Central Bank's exchange rate in effect at the transaction date. Non-monetary items denominated in foreign currency and carried at fair value are restated at the exchange rate in effect at the date the fair value is determined.

Gains and losses on purchase and sale of foreign currency are determined as the difference between the selling price and the carrying amount at the date of the transaction.

### **5. Critical Accounting Estimates and Judgments**

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### **Reserves for claims**

Loss reserves are particularly dependent on the use of estimates and judgment regarding the development of loss expectations. Reserves are calculated for individual lines of business, taking into consideration a wide range of factors. This reserving process begins with actuaries gathering data, typically dividing reserving data into the smallest possible homogeneous segments, while maintaining sufficient volume to form the basis for stable projections.

Once data is collected, they derive patterns of loss payment and emergence of claims based on historical data organised into development triangles arrayed by accident year versus development year. Loss payment and reporting patterns are selected based on observed historical development factors and also on the judgment of the reserving actuary using an understanding of the underlying business, claims processes, data and systems as well as the market, economic, societal and legal environment. Expected loss ratios are then developed, which are derived from the analysis of historical observed loss ratios, adjusted for a range of factors such as loss development, claims inflation, changes in premium rates, changes in portfolio mix and change in policy terms and conditions.

Using the development patterns and expected loss ratios described above, local reserving actuaries produce estimates of ultimate loss and allocated loss adjustment expenses.

Later the Company regularly reviews the reserving processes, including the appropriateness and consistency of assumptions.

#### **Fair value of financial instruments**

The Company determines the fair value of financial instruments that are not quoted, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately.

#### **Valuation of investment property and land and buildings**

The Company obtains valuations performed by external valuers in order to determine the fair value of its investment properties. These valuations are based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties.

The level of activity in the investment property market has been at a low level for the past few months, primarily because of the reduced availability of credit and, where credit is available, the increased cost of borrowing.

The lack of comparable market transactions has resulted in a greater level of professional judgement being relied upon in arriving at valuations. Changes in the underlying assumptions could have a significant impact on the fair values presented.

Further information in relation to the valuation of investment property is disclosed in Note 12 and in relation to the valuation of land and buildings in Note 13.

***Useful lives of property and equipment***

The Company reviews the estimated useful lives of property and equipment at the end of each reporting period.

***Legal proceedings***

In accordance with IFRS the Company recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the financial statements, could have a material effect on the Company's financial position. Application of these accounting principles to legal cases requires the Company's management to make determinations about various factual and legal matters beyond its control. The Company reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Company's management as to how it will respond to the litigation, claim or assessment.

***Income taxes***

The Company is subject to income tax and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the company's belief that its tax return positions are supportable, the company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

**6. Cash and Cash Equivalents**

	2014	2013
Cash in banks	2,325,129	1,802,485
Cash on hand	16,184	16,363
<b>Total cash and cash equivalents</b>	<b>2,341,313</b>	<b>1,818,848</b>

**7. Deposits with Banks**

Deposits with banks represent the Company's main investing tool. All deposits are placed in national banks.

**8. Receivables**

	2014	2013
Receivables from direct insurance business	3,687,525	3,195,665
Receivables from reinsurance business	267,440	156,211
Provision for doubtful receivables	-	-
<b>Total receivables</b>	<b>3,954,965</b>	<b>3,351,876</b>

Movement in provision for doubtful receivables during 2014 and 2013 was as follows:

	2014	2013
Provision for doubtful receivables as at 1 January	-	265,734
Increase in provision	-	-
Recovery of provision	-	(265,734)
<b>Provision for doubtful receivables as at 31 December</b>	<b>-</b>	<b>-</b>

Concentration of receivables as at 31 December 2014 and 2013 was as follows:

	2014		2013	
	Receivables	%	Receivables	%
<b>Receivables from reinsurance business</b>				
AtaSigorta ASC	123,652	46%	44,496	28%
Standard Insurance	38,453	14%	60,073	38%
Hannover Re	49,626	19%	-	0%
Others	55,709	21%	51,642	33%
<b>Total receivables from reinsurance business</b>	<b>267,440</b>	<b>100%</b>	<b>156,211</b>	<b>100%</b>
<b>Receivables from direct insurance business</b>				
BP Exploration	3,085,592	84%	2,554,621	80%
Weus	105,560	3%	283,057	9%
SDL Denholm	79,398	2%	69,245	2%
CPC	79,032	2%	62,932	2%
Others	337,942	9%	225,810	7%
<b>Total receivables from direct insurance business</b>	<b>3,687,525</b>	<b>100%</b>	<b>3,195,665</b>	<b>100%</b>
<b>Total receivables</b>	<b>3,954,965</b>		<b>3,351,876</b>	

**9. Prepayments**

Prepayments represent advances made to suppliers and overpaid current income tax as at 31 December 2013.

**10. Reinsurance Assets**

	2014	2013
Reinsurer's share in provision for unearned premiums	1,532,909	2,009,052
Reinsurer's share in provision for claims	146,621	286,089
<b>Total reinsurance assets</b>	<b>1,679,530</b>	<b>2,295,141</b>

**11. Deferred Acquisition Costs**

	2014	2013
Deferred acquisition costs as at 1 January	310,098	472,119
Change in deferred acquisition costs	88,053	(162,021)
<b>Deferred acquisition costs as at 31 December</b>	<b>398,151</b>	<b>310,098</b>

**12. Property and Equipment**

Movements in property and equipment for the year ended 31 December 2014 were as follows:

	Buildings	Land	Furniture & fixtures	Computers & equipment	Vehicles	Other	Total
<b>Book value</b>							
31 December 2013	346,850	-	136,672	86,712	181,683	17,556	769,473
Additions	-	-	-	14,101	-	-	14,101
Reclassification	-	-	4,859	-	-	(4,859)	-
Disposals	-	-	-	(2,967)	-	-	(2,967)
<b>31 December 2014</b>	<b>346,850</b>	<b>-</b>	<b>141,531</b>	<b>97,846</b>	<b>181,683</b>	<b>12,697</b>	<b>780,607</b>
<b>Accumulated depreciation</b>							
31 December 2013	62,431	-	134,890	67,476	36,435	312	301,544
Depreciation charge	15,608	-	1,236	9,076	49,212	-	75,132
Reclassification	-	-	312	-	-	(312)	-
Eliminated on disposal	-	-	-	(2,922)	-	-	(2,922)
<b>31 December 2014</b>	<b>78,039</b>	<b>-</b>	<b>136,438</b>	<b>73,630</b>	<b>85,647</b>	<b>-</b>	<b>373,754</b>
<b>Net book value</b>							
31 December 2013	284,419	-	1,782	19,236	145,248	17,244	467,929
31 December 2014	268,811	-	5,093	24,216	96,036	12,697	406,853

The management took the decision not to perform valuation of buildings as of 31 December 2014 because it believes that benefits of valuation do not outweigh associated costs.

If the buildings were accounted at historical cost restated according to accumulated depreciation and impairment losses, its carrying value would be 100 thousand manats as at 31 December 2014 and 108 thousand manats as at 31 December 2013.

**"A-Group Insurance Company" OJSC**  
**Notes to the Financial Statements for the Year Ended 31 December 2014 (continued)**  
**in Azerbaijani manats, unless otherwise indicated**

Movements in property and equipment for the year ended 31 December 2013 were as follows:

	Buildings	Land	Furniture & fixtures	Computers & equipment	Vehicles	Other	Total
<b>Book value</b>							
31 December 2012	1,956,850	9,806	143,453	86,865	75,975	12,697	2,285,646
Additions	-	-	-	10,882	131,101	4,859	146,842
Disposals	(1,610,000)	(9,806)	(6,781)	(11,035)	(25,393)	-	(1,663,015)
<b>31 December 2013</b>	<b>346,850</b>	<b>-</b>	<b>136,672</b>	<b>86,712</b>	<b>181,683</b>	<b>17,556</b>	<b>769,473</b>
<b>Accumulated depreciation</b>							
31 December 2012	271,809	-	138,607	68,933	34,740	-	514,089
Depreciation charge	52,181	-	2,837	6,182	27,088	312	88,600
Eliminated on disposal	(261,559)	-	(6,554)	(7,639)	(25,393)	-	(301,145)
<b>31 December 2013</b>	<b>62,431</b>	<b>-</b>	<b>134,890</b>	<b>67,476</b>	<b>36,435</b>	<b>312</b>	<b>301,544</b>
<b>Net book value</b>							
31 December 2012	1,685,041	9,806	4,845	17,933	41,236	12,697	1,771,558
<b>31 December 2013</b>	<b>284,419</b>	<b>-</b>	<b>1,781</b>	<b>19,237</b>	<b>145,249</b>	<b>17,244</b>	<b>467,929</b>

### 13. Investment Property

Investment property includes the building located in Baku and leased to "MediClub Dental" LLC, a related party.

If the premises were measured using the cost model, the items of the statement of financial position would be carried at 119 thousand manats as at 31 December 2014 and 125 thousand manats as at 31 December 2013.

The management took the decision not to perform valuation of investment property as of 31 December 2014 because it believes that benefits of valuation do not outweigh associated costs.

### 14. Taxation

Income tax expense comprises the following:

	2014	2013
Current income tax charge	541,245	478,888
Deferred income tax charge/(credit)	64,752	(88,295)
<b>Total income tax charge for the year</b>	<b>605,997</b>	<b>390,593</b>

The current tax rate applicable to the Company's profit is 20% (2013: 20%).

Included in taxes payable is current income tax payable of AZN 151,921 (2013: AZN 86,812).



**"A-Group Insurance Company" OJSC**  
**Notes to the Financial Statements for the Year Ended 31 December 2014 (continued)**  
**in Azerbaijani manats, unless otherwise indicated**

Reconciliation between the theoretical and the actual taxation charge is provided below:

	2014	2013
IFRS profit before taxation	2,645,676	2,503,140
Theoretical tax charge at the applicable statutory rate 20%	529,135	500,628
Non-deductible expenses less non-taxable income	76,862	(110,035)
<b>Total income tax charge for the year</b>	<b>605,997</b>	<b>390,593</b>

Differences between IFRS and statutory taxation regulations of the Republic of Azerbaijan give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for the Company's profits tax purposes.

	2014			2013		
	Assets	Liabilities	Net asset/ (liability)	Assets	Liabilities	Net asset/ (liability)
Receivables	-	(64,655)	(64,655)	157,063	-	157,063
Deposits with banks	-	(4,330)	(4,330)	-	(4,330)	(4,330)
Property and equipment	69,043	-	69,043	66,532	-	66,532
Reinsurance assets	37,377	-	37,377	50,000	-	50,000
Intangible assets	-	-	-	-	-	-
Investment property	-	(71,420)	(71,420)	-	(71,420)	(71,420)
Provision for claims	66,864	-	66,864	55,641	-	55,641
Other assets	6,287	-	6,287	-	(156,960)	(156,960)
Other liabilities	-	-	-	6,129	-	6,129
<b>Net tax assets / (liabilities)</b>	<b>179,571</b>	<b>(140,405)</b>	<b>39,166</b>	<b>335,365</b>	<b>(232,710)</b>	<b>102,655</b>

Movement of deferred tax balances was as follows:

	2014	2013
Deferred tax asset as at 1 January	102,655	10,423
Deferred tax credit/(charge) for the year	(64,752)	88,297
Income tax relating to components of other comprehensive income	1,263	3,935
<b>Deferred tax asset as at 31 December</b>	<b>39,166</b>	<b>102,655</b>

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

**15. Provision for Unearned Premiums**

Below is the analysis of provision for unearned premium for the year ended 31 December 2014:

			2014
	Gross	Reinsurer's part	Net
Provision for unearned premiums as at 1 January	8,442,335	(2,009,052)	6,433,283
Change in provision for unearned premiums	822,210	476,143	1,298,353
<b>Provision for unearned premiums as at 31 December</b>	<b>9,264,545</b>	<b>(1,532,909)</b>	<b>7,731,636</b>

Below is the analysis of provision for unearned premium for the year ended 31 December 2013:

			2013
	Gross	Reinsurer's part	Net
Provision for unearned premiums as at 1 January	8,285,623	(2,069,942)	6,215,681
Change in provision for unearned premiums	156,712	60,890	217,602
<b>Provision for unearned premiums as at 31 December</b>	<b>8,442,335</b>	<b>(2,009,052)</b>	<b>6,433,283</b>

**16. Provision for Claims**

Below is the analysis of provision for claims for the year ended 31 December 2014:

			2014
	Gross	Reinsurer's part	Net
Provision for claims as at 1 January	1,632,598	(286,088)	1,346,510
Change in provision for claims	(586,855)	139,468	(447,387)
<b>Provision for claims as at 31 December</b>	<b>1,045,743</b>	<b>(146,620)</b>	<b>899,123</b>

Below is the analysis of provision for claims for the year ended 31 December 2013:

			2013
	Gross	Reinsurer's part	Net
Provision for claims as at 1 January	718,017	(171,982)	546,035
Change in provision for claims	914,581	(114,106)	800,475
<b>Provision for claims as at 31 December</b>	<b>1,632,598</b>	<b>(286,088)</b>	<b>1,346,510</b>

Below is the categorisation of provision for claims as at 31 December 2014 and 2013:

	2014	2013
Reported but not settled claims	753,084	1,106,836
Incurred but not reported claims	292,659	525,762
<b>Provision for claims as at 31 December 2014</b>	<b>1,045,743</b>	<b>1,632,598</b>

**17. Payables**

	2014	2013
Claims payable	184,432	513,475
Payable to suppliers	25,712	301,077
Ceded reinsurance premiums payable	360,402	232,486
Dividends payable	5,794	-
Payable to agents	204,425	205,005
<b>Total payables</b>	<b>780,765</b>	<b>1,252,043</b>

**18. Deferred Commission Income**

	2014	2013
Deferred commission income at 1 January	500,274	477,811
Change in deferred commission income	(316,994)	22,463
<b>Deferred commission income as at 31 December</b>	<b>183,280</b>	<b>500,274</b>

**19. Share Capital and Earnings Per Share**

The authorised, issued and fully paid share capital of the Company comprised of:

	2014	2013
Number of shares	7,750	7,750
Par value	943.00	696.80
<b>Share capital</b>	<b>7,308,250</b>	<b>5,400,200</b>

Earnings per share (basic and diluted) for 2014 and 2013 were calculated as follows:

	2014	2013
Net profit for the year	2,039,679	2,112,547
Weighted average number of ordinary shares for basic earnings per share	7,750	7,750
<b>Earnings per share</b>	<b>263.18</b>	<b>272.59</b>

The Company capitalised retained earnings amounting to AZN 1,908,050 during the year ended 31 December 2014 (2013: AZN 680,450).

**"A-Group Insurance Company" OJSC**  
**Notes to the Financial Statements for the Year Ended 31 December 2014 (continued)**  
in Azerbaijani manats, unless otherwise indicated

**20. Premiums and Claims Analysis**

Below is the analysis of premiums and claims by line of the Company's business for the year ended 31 December 2014:

	Insurance from fire	Vehicle insurance	Liability insurance	Travel insurance	Medical insurance	Construction insurance	Other insurance	Total
<b>PREMIUMS</b>								
Gross premiums written	391,100	343,576	58,376	29,899	11,436,091	22,693	25,655	12,307,390
Premiums ceded	(368,355)	(288,943)	(48,584)	(10,386)	(888,109)	(18,638)	(21,113)	(1,644,128)
<b>Premiums written, net of reinsurance</b>	<b>22,745</b>	<b>54,633</b>	<b>9,792</b>	<b>19,513</b>	<b>10,547,982</b>	<b>4,055</b>	<b>4,542</b>	<b>10,663,262</b>
Change in provision for unearned premiums, net	29,046	(1,992)	(1,205)	(1,482)	(1,322,646)	-	12	(1,298,267)
<b>Earned premiums, net of reinsurance</b>	<b>51,791</b>	<b>52,641</b>	<b>8,587</b>	<b>18,031</b>	<b>9,225,336</b>	<b>4,055</b>	<b>4,554</b>	<b>9,364,995</b>
<b>CLAIMS</b>								
Claims paid	11,336	753,648	11,190	4,435	6,776,826	-	-	7,557,435
Claims ceded	(11,080)	(616,312)	(10,966)	(2,419)	(155,450)	-	-	(796,227)
<b>Net payments</b>	<b>256</b>	<b>137,336</b>	<b>224</b>	<b>2,016</b>	<b>6,621,376</b>	<b>-</b>	<b>-</b>	<b>6,761,208</b>
Change in provision for claims, net	(660)	(39,811)	(298)	516	(405,192)	-	(1,941)	(447,386)
<b>Net claims paid</b>	<b>(404)</b>	<b>97,525</b>	<b>(74)</b>	<b>2,532</b>	<b>6,216,184</b>	<b>-</b>	<b>(1,941)</b>	<b>6,313,822</b>

**"A-Group Insurance Company" OJSC**  
**Notes to the Financial Statements for the Year Ended 31 December 2014 (continued)**  
**in Azerbaijani manats, unless otherwise indicated**

Below is the analysis of premiums and claims by line of the Company's business for the year ended 31 December 2013:

	Insurance from fire	Vehicle insurance	Liability insurance	Travel insurance	Medical insurance	Construction insurance	Other insurance	Total
<b>PREMIUMS</b>								
Gross premiums written	302,752	1,033,923	56,544	42,984	9,606,318	38,561	34,294	11,115,376
Premiums ceded	(211,438)	(790,535)	(46,818)	(18,385)	(747,048)	(34,568)	(25,358)	(1,874,150)
<b>Premiums written, net of reinsurance</b>	<b>91,314</b>	<b>243,388</b>	<b>9,726</b>	<b>24,599</b>	<b>8,859,270</b>	<b>3,993</b>	<b>8,936</b>	<b>9,241,226</b>
Change in provision for unearned premiums, net	(41,618)	126,897	(623)	-	(314,858)	-	12,319	(217,883)
<b>Earned premiums, net of reinsurance</b>	<b>49,696</b>	<b>370,285</b>	<b>9,103</b>	<b>24,599</b>	<b>8,544,412</b>	<b>3,993</b>	<b>21,255</b>	<b>9,023,343</b>
<b>CLAIMS</b>								
Claims paid	7,733	788,873	3,914	11,397	6,235,113	-	30,045	7,077,075
Claims ceded	(1,661)	(580,003)	(3,060)	(5,187)	-	-	(17,922)	(607,833)
<b>Net payments</b>	<b>6,072</b>	<b>208,870</b>	<b>854</b>	<b>6,210</b>	<b>6,235,113</b>	<b>-</b>	<b>12,123</b>	<b>6,469,242</b>
Change in provision for claims, net	13,814	77,712	4,619	-	700,477	-	3,874	800,496
<b>Net claims paid</b>	<b>19,886</b>	<b>286,582</b>	<b>5,473</b>	<b>6,210</b>	<b>6,935,590</b>	<b>-</b>	<b>15,997</b>	<b>7,269,738</b>

Concentration of gross premiums written by customers was as follows:

Customer	2014		2013	
	Gross premium written	Percentage of total	Gross premium written	Percentage of total
BP Exploration	6,530,301	53.06%	5,521,959	49.68%
Azercell	1,516,283	12.32%	1,369,668	12.32%
US Embassy	647,795	5.26%	591,817	5.32%
Fircroft Engineering	479,142	3.89%	353,713	3.18%
Others	3,133,869	25.47%	3,278,219	29.50%
<b>Total</b>	<b>12,307,390</b>	<b>100%</b>	<b>11,115,376</b>	<b>100%</b>

The notes set out on pages 9 to 35 are an integral part of these financial statements.

**21. Net Acquisition Costs**

	2014	2013
Fee and commission income	214,806	361,678
Fee and commission expense	(479,926)	(552,758)
Change in deferred acquisition costs	88,053	(162,021)
Change in deferred commission income	316,994	(22,463)
<b>Net acquisition gains/(costs)</b>	<b>139,927</b>	<b>(375,564)</b>

**22. Operating Expenses**

Operating expenses related to insurance activities comprised of:

	2014	2013
Salary and bonuses	851,557	730,227
Depreciation charge	68,815	68,913
Professional services	74,953	29,529
Advertising expenses	75,503	15,393
Communication expenses	19,827	21,673
Insurance expenses	28,207	25,125
Vehicle expenses	26,111	13,543
Repair and maintenance	280	3,450
Bank commissions	52,007	41,057
Taxes other than income tax	6,820	724,701
Business trips	4,358	15,475
Utilities	5,781	7,237
Printing and office supplies	19,030	23,897
Administrative expenses	58,707	136,815
Rent expense	97,850	58,596
Other operating expenses	66,278	58,558
<b>Total operating expenses</b>	<b>1,456,084</b>	<b>1,974,189</b>

**23. Interest Income**

Interest income represents revenue earned from placing idle cash balances in bank deposits (Note 7) with interest rates from 7% to 9% per annum (average 8%).

**24. Other Income**

	2014	2013
Rent income	32,400	32,400
Net gain/(loss) on foreign exchange operations	(5,793)	10,747
Tax recovered	68,045	-
Gain/(loss) on disposal of property and equipment	-	91,706
Gain on recovery of doubtful receivables	-	265,734
Other	50,784	35,353
<b>Total other income/loss</b>	<b>145,436</b>	<b>435,940</b>

**25. Risk Management**

The risk management function within the Company is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational 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 assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

**Industry risk.** Industry risk is a possibility of incurring losses that may worsen the Company's financial condition due to concentration of operations in specific economic sector. Industry risk is managed by evaluating development of respective industry sectors (consideration of project implementation cycle, market analysis and substantiation of competitiveness, payback period and profitability), evaluating lenders, monitoring projects and determining financing forms.

**Credit risk.** The Company takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Company controls the credit risk it undertakes by placing limits on the amount of risk accepted in relation to one debtor, or a group of related debtors. Such risks are monitored by the Company on a regular basis, the limits being subject to an annual or more frequent review. Limits on the level of credit risk by product, debtors or groups of debtors are approved by the Company's management.

Exposure to credit risk is managed through regular analysis of the ability of clients and potential clients to meet repayment obligations and by changing these payment terms where appropriate.

The Company's maximum exposure to credit risk is primarily reflected in the carrying value of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For commitments, the maximum exposure to credit risk is equal to total liabilities.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Company uses the same policies in making contingent obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedure.

**Market risk.** The Company takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The management sets acceptable risk limits and monitors them on a regular basis. However, the use of this approach does not prevent losses beyond these limits in the event of more significant market movements.

The objective of market risk management is to keep the exposure to market risk within the acceptable limits assuring optimal yields for accepted risk. The market risk is assessed by the Company.

**Currency risk.** The Company takes on exposure to effects of fluctuations in the foreign currency exchange rates on its financial position and cash flows. The management sets limits on the level of exposure by currency and in total positions, which are monitored regularly.

**"A-Group Insurance Company" OJSC**  
**Notes to the Financial Statements for the Year Ended 31 December 2014 (continued)**  
**in Azerbaijani manats, unless otherwise indicated**

**Geographical risk.** Receivables AZN 49,626 due to reinsurance business as at 31 December 2014 were from European Union (2013: nil). All sizeable liabilities of the Company are located in Azerbaijan.

The table below summarises the Company's exposure to foreign currency exchange rate risk as at 31 December 2014.

	AZN	USD	Total
<b>Assets</b>			
Cash and cash equivalents	1,837,541	503,772	2,341,313
Deposits with banks	7,608,492	3,840,422	11,448,914
Receivables	3,954,965	-	3,954,965
Prepayments	-	-	-
Reinsurance assets	1,679,530	-	1,679,530
Deferred acquisition costs	398,151	-	398,151
Property and equipment	406,853	-	406,853
Investment property	357,100	-	357,100
Deferred tax assets	39,166	-	39,166
Other assets	16,871	-	16,871
<b>Total assets</b>	<b>16,298,669</b>	<b>4,344,194</b>	<b>20,642,863</b>
<b>Liabilities</b>			
Provision for unearned premiums	9,264,545	-	9,264,545
Provision for claims	1,045,743	-	1,045,743
Payables	646,712	134,053	780,765
Deferred commission income	183,280	-	183,280
Taxes payable	245,265	-	245,265
Other liabilities	15,307	-	15,307
<b>Total liabilities</b>	<b>11,400,852</b>	<b>134,053</b>	<b>11,534,905</b>
<b>Net balance sheet position</b>	<b>4,897,817</b>	<b>4,210,141</b>	<b>9,107,958</b>



**"A-Group Insurance Company" OJSC**  
**Notes to the Financial Statements for the Year Ended 31 December 2014 (continued)**  
**in Azerbaijani manats, unless otherwise indicated**

As at 31 December 2013 the Company had the following positions in currencies:

	AZN	USD	Total
<b>Assets</b>			
Cash and cash equivalents	1,800,822	18,026	1,818,848
Deposits with banks	8,321,402	1,824,747	10,146,149
Receivables	3,064,176	287,700	3,351,876
Prepayments	33,729	-	33,729
Reinsurance assets	2,295,141	-	2,295,141
Deferred acquisition costs	310,098	-	310,098
Property and equipment	467,929	-	467,929
Investment property	357,100	-	357,100
Deferred tax assets	102,655	-	102,655
Other assets	36,236	-	36,236
<b>Total assets</b>	<b>16,789,288</b>	<b>2,130,473</b>	<b>18,919,761</b>
<b>Liabilities</b>			
Provision for unearned premiums	8,442,335	-	8,442,335
Provision for claims	1,632,598	-	1,632,598
Payables	1,169,876	82,167	1,252,043
Deferred commission income	500,274	-	500,274
Other liabilities	13,384	-	13,384
<b>Total liabilities</b>	<b>11,758,467</b>	<b>82,167</b>	<b>11,840,634</b>
<b>Net balance sheet position</b>	<b>5,030,821</b>	<b>2,048,306</b>	<b>7,079,127</b>

The Company issued insurance and reinsurance policies and bears expenses in currencies other than its functional currency. Depending on the revenue or expense stream, the appreciation or depreciation of currencies against the Azerbaijani manat may adversely affect the Company's repayment ability and therefore increases the risk of future losses.

The table below shows the change in the financial result and comprehensive income due to possible fluctuations of exchange rates used as at the reporting date if all other conditions remain unchanged. Reasonably expected exchange rate changes for each currency were projected on the basis of maximal exchange rate fluctuations in December 2014 and 2013.

	2014		2013	
	Effect on profit or loss before taxation	Effect on comprehensive income	Effect on profit or loss before taxation	Effect on comprehensive income
USD appreciation by 2%	86,884	69,507	40,966	32,773
USD depreciation by 2%	(86,884)	(69,507)	(40,966)	(32,773)

The risk was calculated only for balances in currencies other than the Company's functional currency.

**Liquidity risk.** Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Company is exposed to this risk via insurance and reinsurance claims; payables to suppliers and government authorities. The Company does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations. Liquidity risk is overseen by the management with regard for decisions of the Company's Board for decision making in asset formation and transaction funding requirements.

The Company is keen on maintaining stable financing predominantly consisting of claims for insurance benefits and also on investing funds in diversified liquid asset portfolios to be able to meet unexpected liquidity needs quickly and unhampered.

**"A-Group Insurance Company" OJSC**  
**Notes to the Financial Statements for the Year Ended 31 December 2014 (continued)**  
**in Azerbaijani manats, unless otherwise indicated**

To manage its liquidity, the Company is required to analyse the level of liquid assets needed to settle the liabilities on their maturity by providing access to various sources of financing, drawing up plans to solve the problems with financing and exercising control over compliance of the liquidity ratios with the laws and regulations.

The management receives information about their financial assets and liabilities and promptly manages the Company's resources with regard for the asset and liabilities management decisions, ensures solvency and liquidity of the Company by optimising cash flows and payment calendar for efficient use of cash funds. The management regularly monitors the liquidity position.

In those cases when the amount to be paid is not fixed, the amount in the table is determined on the basis of conditions prevailing at the reporting date. Foreign currency payments are translated using the spot exchange rates effective at the reporting date.

The table below shows the maturity analysis of financial liabilities as at 31 December 2014:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Provision for unearned premiums	948,880	4,181,021	3,705,816	428,829	9,264,545
Provision for claims	192,324	853,418	-	-	1,045,743
Payables	229,620	551,145	-	-	780,765
Deferred commission income	15,667	65,552	51,982	50,080	183,281
Taxes payable	-	245,265	-	-	245,265
Other liabilities	-	15,307	-	-	15,307
<b>Total liabilities</b>	<b>1,386,490</b>	<b>5,911,708</b>	<b>3,757,798</b>	<b>478,909</b>	<b>11,534,905</b>

The table below shows the maturity analysis of financial liabilities as at 31 December 2013:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Provision for unearned premiums	585,107	2,915,242	3,548,070	1,393,916	8,442,335
Provision for claims	483,441	1,149,157	-	-	1,632,598
Payables	2,526	1,249,517	-	-	1,252,043
Deferred commission income	31,564	138,800	126,962	202,948	500,274
Other liabilities	-	13,384	-	-	13,384
<b>Total liabilities</b>	<b>1,102,638</b>	<b>5,466,100</b>	<b>3,675,032</b>	<b>1,596,864</b>	<b>11,840,634</b>

In the opinion of the Company's management, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental for successful management of the Company. It is unusual for insurers ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Company and its exposure to changes in interest and exchange rates.

**Interest rate risk.** This risk appears when the Company takes on exposure to the effects of fluctuations in market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Company is not exposed to interest rate risk, principally because it has no material interest bearing liabilities. The only interest bearing asset of the Company is deposits with banks, which carry annual interest rate ranging from 9% to 12% (Note 23).

**Underwriting risk.** The Company assumes underwriting risk when the amount of premiums and/or the term over which they are paid by the insureds differ significantly from the amount of losses and/or the term over which they are compensated to the insureds.

The Company controls underwriting risks through:

- Underwriting departments and application of the established underwriting procedures to monitor the insurance portfolio rates by class of business;
- Outward reinsurance to mitigate the Company's exposure to great losses/catastrophes;
- Asset and liability management control to match the expected insurance premiums with the assets' maturities;
- Diversification of insurance services;
- Comprehensive actuarial analysis.

## **26. Capital Management**

The Company's capital management has the following objectives:

- to observe requirements established by Law of the Republic of Azerbaijan "On insurance";
- to observe the minimum share capital requirements established by legislation of the Republic of Azerbaijan;
- to ensure the Company's ability to operate as a going concern;
- to maintain the scope and structure of assets used as cover for equity in accordance with respective legislation of the Republic of Azerbaijan.

The control over compliance of the asset scope and structure with the requirements of the Azerbaijani legislation is exercised on the basis of quarterly reports with the corresponding calculations that are verified and approved by the Company's Chairman of the Board and Chief Accountant. Other capital management objectives are assessed annually.

## **27. Contingent Liabilities**

**Legal issues.** In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company and accordingly no provision has been made as in the management's opinion the possibility of material losses is low.

**Tax legislation.** As disclosed in Note 14 above Azerbaijani tax 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 regional or federal authorities. Recent events in Azerbaijan have shown 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 tax authorities in respect of taxes for three calendar years preceding the year of the review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2014, the management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency and customs positions will be sustained by controlling bodies.

**Operating lease commitments.** The Company did not enter any non-cancellable lease arrangements.

## **28. Fair Value of Financial Instruments**

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced or liquidation sale. Quoted financial instruments in active markets provide the best evidence of fair value. As no readily available market exists for major part of the Company's financial instruments, the fair value shall be estimated based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Company could realise in a market exchange from the sale of its full holdings of a particular instrument.

Management believes that carrying values of the Company's financial assets and liabilities approximate their fair values.

The Company uses the following methods and assumptions to estimate the fair value of the following financial instruments:

**Accounts receivable.** Accounts receivable are recorded net of impairment provision. Provision for impairment is estimated on the basis of risk analysis covering such factors as current economic situation in

the debtor's industry, the financial position of a debtor and the guarantees received. Long-term accounts receivable are carried at amortised cost using the discount rate approximating current market rates.

**Accounts payable.** Short-term payables are stated at the nominal amount due. Long-term payables are measured at amortised cost using the discount rate that is equal to market interest rate on loans used for similar debt financing. The fair value of cash and other financial assets and liabilities approximates their carrying amount due to their short-term nature.

### 29. Reconciliation of Categories of Financial Instruments with Measurement Categories

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Company classifies its financial assets in the following categories: 1) financial assets at fair value through profit or loss; 2) loans and receivables; 3) financial assets available for sale.

At the same time, in accordance with IFRS 7 "Financial Instruments: Disclosures" the Company discloses different classes of financial instruments. As at 31 December 2014 and 2013 all financial assets of the Company were classified as loans and receivables.

All financial liabilities of the Company are classified as measured at amortised cost.

### 30. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely the legal form.

In the normal course of business the Company enters into transactions with its major shareholders, directors, subsidiaries and other related parties. These transactions include settlements, issuance of loans, deposit taking, guarantees, trade finance and foreign currency transactions.

The outstanding balances at the year end and asset transactions with related parties as of 31 December 2014 and 2013 were as follows:

	2014		2013	
	Related party transactions	Total category	Related party transactions	Total category
Claims paid		(7,557,435)		(7,077,075)
– companies controlled by the shareholder	(3,377,912)		(2,771,615)	
Operating expenses		(1,456,084)		(1,974,189)
– key management personnel	(208,281)		(192,244)	
Other income/(loss)		145,436		435,940
– companies controlled by the shareholder	32,400		32,400	

### 31. Subsequent Events

On 29 June 2015 share capital of the Company was increased by AZN 697,500 to AZN 8,005,750 (7,750 shares with par value AZN 1,033 each).

On 21 February 2015 the Central Bank of the Republic of Azerbaijan announced overnight devaluation of the national currency and set the official exchange rate of 1 US dollar to 1.0500 manats and that of 1 Euro to 1.1950 manats.