

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

Financial Statements  
for the Year Ended 31 December 2017  
and Independent Auditor's Report

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## Independent auditor's report

To the shareholder and the supervisory board of "A-Group Insurance Company" OJSC

### Opinion

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 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter

Without qualifying our opinion, we draw your attention to Note 21 of the financial statements which describes significant concentration of business.

### Responsibilities of management and those charged with governance for the financial statements

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

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

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

### Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

*BDO Azerbaijan LLC*

Baku, Azerbaijan

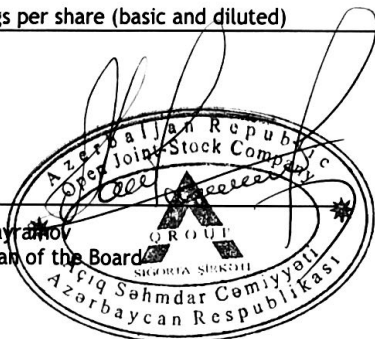
25 September 2018



**"A-Group Insurance Company" OJSC**  
**Statement of profit or loss and other comprehensive income for the year ended 31 December 2017**  
**in Azerbaijani manats, unless otherwise indicated**

	Note	2017	2016
Gross written premiums		12,358,577	12,445,475
Premiums ceded to reinsurers		(1,188,701)	(1,125,629)
<b>Net written premiums</b>		<b>11,169,876</b>	<b>11,319,846</b>
Change in provision for unearned premiums, net of reinsurance		398,153	(278,951)
<b>Premiums earned, net of reinsurance</b>		<b>11,568,029</b>	<b>11,040,895</b>
Claims paid		(8,113,868)	(8,377,587)
Claims ceded to reinsurers		224,843	244,218
Change in provision for claims, net of reinsurance		360,206	(64,590)
Net acquisition gains	22	35,123	47,443
<b>Insurance activity results</b>	21	<b>4,074,333</b>	<b>2,890,379</b>
Operating expenses	23	(1,720,110)	(1,802,549)
Change in allowance for impairment losses on deposits with banks and cash in banks		-	(416,260)
Interest income	24	178,517	527,044
Foreign exchange (loss)/gain		(673,412)	1,896,006
Other income	25	186,412	88,424
<b>Profit before tax</b>		<b>2,045,740</b>	<b>3,183,044</b>
Income tax charge	15	(391,123)	(727,064)
<b>Net profit for the year</b>		<b>1,654,617</b>	<b>2,455,980</b>
<b>Other comprehensive income/(loss)</b>			
Depreciation charge relating to components of other comprehensive income		(6,317)	(6,317)
Income tax relating to components of other comprehensive income		1,263	1,263
<b>Other comprehensive loss for the year, net of tax</b>		<b>(5,054)</b>	<b>(5,054)</b>
<b>Total comprehensive income for the year</b>		<b>1,649,563</b>	<b>2,450,926</b>
Earnings per share (basic and diluted)	20	213.50	316.90

Anar Bayramov  
Chairman of the Board



Natavan İmamgulyeva  
Chief Accountant

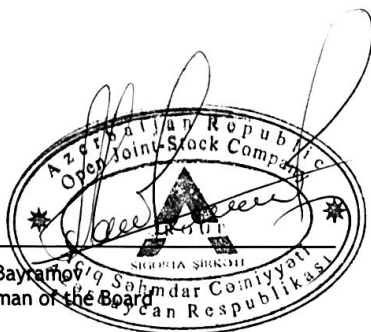
25 September 2018

The notes set out on pages 9 to 39 are an integral part of these financial statements.

**"A-Group Insurance Company" OJSC**  
**Statement of changes in equity for the year ended 31 December 2017**  
**in Azerbaijani manats, unless otherwise indicated**

	Note	Share capital	Revaluation reserve	Retained earnings	Total equity
1 January 2016		8,005,750	81,982	7,744,936	15,832,668
Net profit for the year		-	-	2,455,980	2,455,980
Other comprehensive loss for the year, net of tax		-	(5,054)	-	(5,054)
Dividends declared	20	-	-	(7,821,961)	(7,821,961)
<b>31 December 2016</b>		<b>8,005,750</b>	<b>76,928</b>	<b>2,378,955</b>	<b>10,461,633</b>
Increase in share capital	20	1,999,500	-	(1,999,500)	-
Net profit for the year		-	-	1,654,617	1,654,617
Other comprehensive loss for the year, net of tax		-	(5,054)	-	(5,054)
Dividends declared	20	-	-	(2,193,972)	(2,193,972)
<b>31 December 2017</b>		<b>10,005,250</b>	<b>71,874</b>	<b>(159,900)</b>	<b>9,917,224</b>

Anar Bayramov  
Chairman of the Board



Natavan Imamgulyeva  
Chief Accountant

25 September 2018

The notes set out on pages 9 to 39 are an integral part of these financial statements.

**"A-Group Insurance Company" OJSC**  
**Statement of cash flows for the year ended 31 December 2017**  
**in Azerbaijani manats, unless otherwise indicated**

	Note	2017	2016
<b>Cash flows from operating activities</b>			
Premiums received		9,733,527	11,223,263
Premiums paid		(641,498)	(477,764)
Claims paid		(8,304,526)	(7,225,136)
Reinsurance benefits received		57,824	118,440
Operating expenses paid		(1,659,836)	(1,640,054)
Commission paid		(101,947)	(32,167)
Interest received		285,366	555,360
Income tax paid		(919,000)	(2,103,933)
Other income received		57,875	55,438
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(1,492,215)</b>	<b>473,447</b>
<b>Cash flows from investing activities</b>			
Withdrawal of deposits with banks		4,143,450	9,451,722
Property and equipment additions	11	(84,403)	(14,509)
<b>Net cash inflow from investing activities</b>		<b>4,059,047</b>	<b>9,437,213</b>
<b>Cash flows from financing activities</b>			
Dividends paid	20	(737,494)	(7,821,961)
<b>Net cash outflow from financing activities</b>		<b>(737,494)</b>	<b>(7,821,961)</b>
Effect of foreign exchange differences		(389,436)	573,078
Net increase in cash and bank accounts		1,439,902	2,661,777
Cash and bank accounts at the beginning of the year	6	7,798,169	5,136,392
<b>Cash and bank accounts at the end of the year</b>	<b>6</b>	<b>9,238,071</b>	<b>7,798,169</b>

During the current year, the company entered into the non-cash investing, operating and financing activities, which are not reflected in statement of cash flows:

- The dividends declared for profits earned during the year 2016 amounting to AZN 1,999,500 were reinvested in company's share capital at the beginning of the year 2017 (Note 20).
- Marketing services for amount of AZN 25,270 were countervailed with insurance support.
- The Company signed medical policy contract with one of the local insurance companies and ceded 100% of risks to the same company as part of reinsurance contract for total amount of AZN 254,525. The transaction has partly cash nature as the settlement between two parties resulted in Company receiving commission income in amount of AZN 2,200.
- The rent income and public utilities from related parties was countervailed with insurance claim payables for total amount of AZN 8,491 (Note 31).

Anar Bayramov  
Chairman of the Board

25 September 2018

Nafayun Imamgulyeva  
Chief Accountant

The notes set out on pages 9 to 39 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 Financial Market Supervisory Authority 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, The Republic of Azerbaijan. The Company has one branch in Gandja city.

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

The average number of the Company's employees in 2017 was 54 (2016: 57 employees).

## **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, global commodity prices 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.

### **Inflation**

In 2017 inflation in Azerbaijan slightly increased. 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 2017	13.0%
31 December 2016	12.4%
31 December 2015	10.5%

### **Foreign currency transactions**

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at rates of exchange prevailing at dates of transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss.

As at 31 December 2017 and 31 December 2016 the closing rates of exchange, being official rates of the Central Bank of the Republic of Azerbaijan, used for translating foreign currency balances to Azerbaijani Manats were:

<b>Date</b>	<b>USD</b>	<b>EUR</b>
31 December 2017	1.7001	2.0307
31 December 2016	1.7707	1.8644

### **3. Basis of presentation**

#### **General principles**

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). 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**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates - the functional currency. Financial statements are presented in Azerbaijani manat ("AZN"), which is the Company's functional and presentation currency.

#### **Estimates and assumptions**

The preparation of preliminary financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The Company makes certain estimates and assumptions regarding the future. The management also needs to exercise judgement in applying the accounting policies.

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 deviate from these estimates and assumptions. Key sources of estimation uncertainty 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.

#### **Going concern**

These financial statements have been prepared on the assumption that the Company is a going concern and will continue in operation for the foreseeable future.

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**

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

##### **a) New standards, interpretations and amendments effective from 1 January 2017**

For the preparation of these financial statements, the following new or amended standards are mandatory for the first time for the financial year beginning 1 January 2017 (the list does not include information about new or amended requirements that affect interim financial reporting or first-time adopters of IFRSs - eg IFRS 14 *Regulatory Deferral Accounts* (issued in January 2014) - since they are not relevant to the Company).

- Amendments to IAS 7 titled *Disclosure Initiative* (issued in January 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2017, require entities to provide information that enable users of financial statements to evaluate changes in liabilities arising from their financing activities. This is not expected to have a material effect on the Company's financial statements.

*"A-Group Insurance Company" OJSC*  
*Notes to the financial statements for the year ended 31 December 2017 (continued)*  
*in Azerbaijani manats, unless otherwise indicated*

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- Amendments to IAS 12 titled Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2017, clarify the accounting for deferred tax assets related to unrealised losses on debt instruments measured at fair value, to address diversity in practice. This is not expected to have an effect on the Company's financial statements.

*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:

- Amendments to IFRS 2 titled Classification and Measurement of Share-based Payment Transactions (issued in June 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2018, clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments (SBP), the accounting for SBP transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a SBP that changes the classification of the transaction from cash-settled to equity-settled. The amendments are not expected to have a material effect on the Company's financial statements.
- Amendments to IFRS 4 titled *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (issued in September 2016) - The amendments give all entities that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before implementing the replacement insurance contracts Standard for IFRS 4 that is under drafting by the Board. Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption from applying IFRS 9 (until 2021), thus continuing to apply IAS 39 instead. As the Company has not issued insurance contracts, the amendments are not expected to have an effect on its financial statements.
- IFRS 9 Financial Instruments (issued in July 2014) - This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.
  - IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
  - For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
  - For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.
  - For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.
  - The derecognition provisions are carried over almost unchanged from IAS 39.

The Management anticipates that IFRS 9 will be adopted in the Company's financial statements when it becomes mandatory and that the application of the new standard might have a significant effect on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.



- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and amended for clarifications in April 2016) - The new standard, effective for annual periods beginning on or after 1 January 2018, replaces IAS 11, IAS 18 and their interpretations. It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (eg the point at which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract, etc.). The Management anticipates that IFRS 15 will be adopted in the Company's financial statements when it becomes mandatory and that the application of the new standard might have a significant effect on amounts reported in respect of the Company's revenue. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.
- IFRS 16 Leases (issued in January 2016) - The new standard, effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 and its interpretations. The biggest change introduced is that almost all leases will be brought onto lessees' balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The Management anticipates that IFRS 16 will be adopted in the Company's financial statements when it becomes mandatory and that the application of the new standard will have a significant effect on amounts reported in respect of the Company's leases. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.
- IFRS 17 Insurance contracts (issued in May 2017) - The new standard is scheduled to be applied for reporting periods starting on or after 1 January 2021. It establishes principles for recognition, measurement, presentation and disclosure for insurance and reinsurance contracts, and investment contracts with discretionary participation features provided the entity also issues insurance contracts. IFRS 17, Insurance Contracts, is a significant change to accounting requirements and will require companies to change their financial reporting processes and systems, actuarial models, financial statements, and business planning and forecasting models.

As of date of issuance of these financial statements, management are still in the process of evaluating the impact of these new and revised standards on the financial statements.

#### **4. Summary of significant accounting policies**

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

The Company classifies its financial assets in the following categories:

- bank accounts
- deposits with banks
- reinsurance assets and receivables.

The Company determines the classification of its financial assets at initial recognition. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

##### ***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.

#### **Insurance contracts - classification**

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

Insurance contracts are contracts where the insurer accepts a substantial insurance risk from the insured, agreeing to make payment to the insured upon occurrence in the future of the agreed unforeseen 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.

#### **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;
- 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.

**Provision 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. The amount accrued for provision for claims also includes future administrative expenses necessary to realise the payment. 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.

Unless stated otherwise all provision for unearned premiums and provision for claims financial statement areas are shown gross of reinsurance part.

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

**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.

#### **Cash and bank accounts**

Cash and bank accounts 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 bank accounts.

#### **Deposits with banks**

Securities 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.

### **Property and equipment**

Property and equipment, other than buildings, are stated at cost less accumulated depreciation and impairment provision, where required. Buildings are stated at revalued amounts being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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.

### **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 and fixture - 5 years;
- Computers and equipment - 4 years;
- 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 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 of the Company are accounting software and license. Useful live used in the calculation of amortisation is 5 years.

### **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. Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

**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 carry forwards 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 carry forwards 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 carry forwards 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.

**Provisions**

**General**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

#### **Unused vacations**

Provision for unused vacation is recognised in the period when that vacations are earned by employees.

#### **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 income earned on fixed-income financial assets. When deposits 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.

#### **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.

The Company also issues short term loans to employees and deducts certain amounts from net monthly salary. As the total amounts distributed during the year 2017 as well as discounting effect using local market interest rates are immaterial we do not disclose following case in notes to financial statements.

#### **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).

### **5. Critical accounting estimates and judgments**

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The Company makes certain estimates and assumptions regarding the future. The management also needs to exercise judgement in applying the accounting policies.

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 deviate from these estimates and assumptions. Key sources of estimation uncertainty 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 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 13 and in relation to the valuation buildings in Note 11.

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

Property and equipment is depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

#### **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**

During the ordinary course of ordinary business, there are many 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.

As a result the Company minimizes the risks related to this fact. The Company believes that its accruals for tax liabilities are adequate for all 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 bank accounts**

	2017	2016
Bank accounts, foreign currency (Note 31)	9,460,243	2,386,034
Bank accounts, AZN	190,578	1,683,732
Cash on hand	4,323	3,728,403
Allowance for impairment of bank accounts, foreign currency	(417,073)	-
<b>Total cash and bank accounts</b>	<b>9,238,071</b>	<b>7,798,169</b>

As at the end of 2017 allowance for impairment of bank accounts comprised of AZN 416,260. The amount represents deposits in foreign currency placed in banks that bankrupted during 2016. Deposit agreement matured as at the end of 2017 and amount was classified as bank accounts. The difference in amounts of provision of AZN 813 is due to exchange rate variations.

Bank accounts balances located in a related party, "AG Bank" OJSC, as per 31 December 2017 was AZN 693,238 (2016: AZN 106,928).

#### **7. Deposits with banks**

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

	2017	2016
Deposits with banks, foreign currency (Note 31)	3,570,210	8,384,409
Interest income receivable on deposits with banks	95,971	202,822
Allowance for impairment of deposits with banks, foreign currency (Note 6)	-	(416,260)
<b>Total deposits with banks</b>	<b>3,666,181</b>	<b>8,170,971</b>

Deposits with banks located in a related party, "AG Bank" OJSC, as per 31 December 2017 was AZN 699,880 (2016: AZN 2,178,277).

**"A-Group Insurance Company" OJSC**  
**Notes to the financial statements for the year ended 31 December 2017 (continued)**  
**in Azerbaijani manats, unless otherwise indicated**

**8. Receivables**

	2017	2016
Receivables from direct insurance business	6,870,053	4,616,681
Receivables from reinsurance business	7,750	19,570
Allowance for doubtful receivables	-	(42,890)
<b>Total receivables</b>	<b>6,877,803</b>	<b>4,593,361</b>

As per 31 December 2017 the Company doesn't have impaired receivables balances (Note 26).

Concentration of receivables as at 31 December 2017 and 2016 was as follows:

	2017		2016	
	Receivables	%	Receivables	%
<b>Receivables from direct insurance business</b>				
BP Exploration (Azerbaijan) Limited	5,555,042	81%	2,885,821	63%
US Embassy	783,965	11%	1,040,298	23%
Weus Holding LLC Azerbaijan branch	106,369	2%	101,885	2%
Others	424,677	6%	588,677	12%
<b>Total receivables from reinsurance business, gross</b>	<b>6,870,053</b>	<b>100%</b>	<b>4,616,681</b>	<b>100%</b>
Allowance for impairment of receivables from direct insurance business	-		(42,890)	
<b>Total receivables from direct insurance business</b>	<b>6,870,053</b>		<b>4,573,791</b>	
<b>Receivables from reinsurance business</b>				
Baki Sigorta	7,492	97%	9,109	47%
Others	258	3%	10,461	53%
<b>Total receivables from reinsurance business</b>	<b>7,750</b>	<b>100%</b>	<b>19,570</b>	<b>100%</b>
<b>Total receivables</b>	<b>6,877,803</b>		<b>4,593,361</b>	

The amount of receivables due from a related party, "MediClub" LLC, for both years were nil (Note 31).

**9. Reinsurance assets**

	2017	2016
Reinsurer's share in provision for unearned premiums	722,467	763,435
Reinsurer's share in provision for claims	192,508	239,266
<b>Total reinsurance assets</b>	<b>914,975</b>	<b>1,002,701</b>

**10. Deferred acquisition costs**

	2017	2016
Deferred acquisition costs as at 1 January	41,110	100,706
Change in deferred acquisition costs	3,134	(59,596)
<b>Deferred acquisition costs as at 31 December</b>	<b>44,244</b>	<b>41,110</b>

*The notes set out on pages 9 to 39 are an integral part of these financial statements.*



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

**Notes to the financial statements for the year ended 31 December 2017 (continued)**  
**in Azerbaijani manats, unless otherwise indicated**

**11. Property and equipment**

Movements in property and equipment for the year ended 31 December 2017 were as follows:

	Buildings	Furniture and fixtures	Computers and equipment	Vehicles	Other	Total
<b>Book value</b>						
31 December 2016	346,850	148,185	98,545	201,437	12,697	807,714
Additions	-	-	7,369	77,034	-	84,403
Disposals	-	-	-	(54,060)	-	(54,060)
<b>31 December 2017</b>	<b>346,850</b>	<b>148,185</b>	<b>105,914</b>	<b>224,411</b>	<b>12,697</b>	<b>838,057</b>
<b>Accumulated depreciation</b>						
31 December 2016	109,255	140,066	60,322	182,631	-	492,274
Depreciation charge	22,083	2,303	16,560	43,569	-	84,515
Eliminated on disposal	-	-	-	(50,544)	-	(50,544)
<b>31 December 2017</b>	<b>131,338</b>	<b>142,369</b>	<b>76,882</b>	<b>175,656</b>	<b>-</b>	<b>526,245</b>
<b>Net book value</b>						
<b>31 December 2016</b>	<b>237,595</b>	<b>8,119</b>	<b>38,223</b>	<b>18,806</b>	<b>12,697</b>	<b>315,440</b>
<b>31 December 2017</b>	<b>215,512</b>	<b>5,816</b>	<b>29,032</b>	<b>48,755</b>	<b>12,697</b>	<b>311,812</b>

Movements in property and equipment for the year ended 31 December 2016 were as follows:

	Buildings	Furniture and fixtures	Computers and equipment	Vehicles	Other	Total
<b>Book value</b>						
31 December 2015	346,850	144,535	94,289	201,437	12,697	799,808
Additions	-	3,650	15,574	-	-	19,224
Disposals	-	-	(11,318)	-	-	(11,318)
<b>31 December 2016</b>	<b>346,850</b>	<b>148,185</b>	<b>98,545</b>	<b>201,437</b>	<b>12,697</b>	<b>807,714</b>
<b>Accumulated depreciation</b>						
31 December 2015	93,647	137,674	57,020	133,815	-	422,156
Depreciation charge	15,608	2,392	14,564	48,816	-	81,380
Eliminated on disposal	-	-	(11,262)	-	-	(11,262)
<b>31 December 2016</b>	<b>109,255</b>	<b>140,066</b>	<b>60,322</b>	<b>182,631</b>	<b>-</b>	<b>492,274</b>
<b>Net book value</b>						
<b>31 December 2015</b>	<b>253,203</b>	<b>6,861</b>	<b>37,269</b>	<b>67,622</b>	<b>12,697</b>	<b>377,652</b>
<b>31 December 2016</b>	<b>237,595</b>	<b>8,119</b>	<b>38,223</b>	<b>18,806</b>	<b>12,697</b>	<b>315,440</b>

The management believes that carrying value of the buildings to date is approximately the same as its revalued amount as of 31 December 2016 and 2017.

If the buildings were accounted at historical cost restated according to accumulated depreciation and impairment losses, its carrying value would be 81 thousand manats as at 31 December 2017 and 87 thousand manats as at 31 December 2016 (Note 20). The depreciation charge on revalued buildings during the year 2017 was AZN 6,317 (2016: AZN 6,317) and is included in statement of other comprehensive income.

*The notes set out on pages 9 to 39 are an integral part of these financial statements.*

**"A-Group Insurance Company" OJSC**  
**Notes to the financial statements for the year ended 31 December 2017 (continued)**  
**in Azerbaijani manats, unless otherwise indicated**

As per 31 December 2017 and 2016 the financial statements of the Company include fully depreciated property and equipment as listed below:

	31 December 2017	31 December 2016
Furniture and fixtures	135,411	135,411
Vehicles	132,618	58,083
Computers and equipment	39,691	33,963
Other	12,697	12,697
<b>Total fully depreciated property and equipment</b>	<b>320,417</b>	<b>240,154</b>

**12. Intangible assets**

Movements in intangible assets for the year ended 31 December 2017 were as follows:

	Computer software	License	Total
<b>Book value</b>			
31 December 2016	119,000	5,425	124,425
<b>31 December 2017</b>	<b>119,000</b>	<b>5,425</b>	<b>124,425</b>
<b>Accumulated amortisation</b>			
31 December 2016	25,691	1,293	26,984
Amortisation expense	23,800	1,085	24,885
<b>31 December 2017</b>	<b>49,491</b>	<b>2,378</b>	<b>51,869</b>
<b>Net book value</b>			
31 December 2016	93,309	4,132	97,441
<b>31 December 2017</b>	<b>69,509</b>	<b>3,047</b>	<b>72,556</b>

Movements in intangible assets for the year ended 31 December 2016 were as follows:

	Computer software	License	Total
<b>Book value</b>			
31 December 2015	-	-	-
Additions	119,000	5,425	124,425
<b>31 December 2016</b>	<b>119,000</b>	<b>5,425</b>	<b>124,425</b>
<b>Accumulated amortisation</b>			
31 December 2015	1,891	208	2,099
Amortisation expense	23,800	1,085	24,885
<b>31 December 2016</b>	<b>25,691</b>	<b>1,293</b>	<b>26,984</b>
<b>Net book value</b>			
31 December 2015	117,109	5,217	122,326
<b>31 December 2016</b>	<b>93,309</b>	<b>4,132</b>	<b>97,441</b>

*The notes set out on pages 9 to 39 are an integral part of these financial statements.*

**"A-Group Insurance Company" OJSC**  
**Notes to the financial statements for the year ended 31 December 2017 (continued)**  
**in Azerbaijani manats, unless otherwise indicated**

**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 95 thousand manats as at 31 December 2017 and 103 thousand manats as at 31 December 2016 (Note 20).

The reassessment of the building took place on 15 March 2010 by an independent valuer "Koneko Group" specifically for preparation of financial statements. The management believes that investment property has been presented at fair value based on its market value as of 31 December 2017 and 2016.

**14. Tax assets**

As at 31 December 2017 the value of tax assets includes prepaid income tax amounting AZN 356,994 and WHT of AZN 81,944 (2016: AZN 31,953). The prepaid amount can be used for to set off all applicable payable taxes.

**15. Deferred tax**

Income tax expense comprises the following:

	2017	2016
Current income tax charge	354,364	797,205
Deferred income tax credit	36,759	(70,141)
<b>Total income tax charge for the year</b>	<b>391,123</b>	<b>727,064</b>

The current tax rate applicable to the Company's profit is 20%.

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

	2017	2016
Profit before tax	2,045,740	3,183,044
Theoretical tax charge at the applicable statutory rate 20%	409,148	636,609
Non-deductible expenses less non-taxable income	(18,025)	90,455
<b>Total income tax charge for the year</b>	<b>391,123</b>	<b>727,064</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.

Temporary differences due to	Balance as at 31 December 2016	(Charged)/credited to profit or loss	Balance as at 31 December 2017
Cash and bank accounts	83,252	(163)	83,089
Deposits with banks	(40,564)	21,370	(19,194)
Receivables	(7,669)	15,505	7,836
Reinsurance assets	(7,349)	29,850	22,501
Property and equipment	77,355	566	77,921
Intangible assets	5,043	3,788	8,831
Investment property	(71,420)	-	(71,420)
Other assets	4,139	1,123	5,262
Payables	21,875	(21,875)	-
Provision for claims	19,395	(89,910)	(70,515)
Other liabilities	-	4,250	4,250
<b>Net tax assets</b>	<b>84,057</b>	<b>(35,496)</b>	<b>48,561</b>

*The notes set out on pages 9 to 39 are an integral part of these financial statements.*

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Movement in deferred tax balances was as follows:

	2017	2016
Deferred tax asset as at 1 January	84,057	12,653
Deferred tax (charge)/credit for the year	(36,759)	70,141
Income tax relating to components of other comprehensive income	1,263	1,263
<b>Deferred tax asset as at 31 December</b>	<b>48,561</b>	<b>84,057</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.

**16. Provision for unearned premiums**

Below is the analysis of provision for unearned premium for the year ended 31 December 2017:

	2017		
	Gross	Reinsurer's part	Net
Provision for unearned premiums as at 1 January	9,357,647	(763,435)	8,594,212
Change in provision for unearned premiums	(439,121)	40,968	(398,153)
<b>Provision for unearned premiums as at 31 December</b>	<b>8,918,526</b>	<b>(722,467)</b>	<b>8,196,059</b>

Below is the analysis of provision for unearned premium for the year ended 31 December 2016:

	2016		
	Gross	Reinsurer's part	Net
Provision for unearned premiums as at 1 January	9,110,056	(794,795)	8,315,261
Change in provision for unearned premiums	247,591	31,360	278,951
<b>Provision for unearned premiums as at 31 December</b>	<b>9,357,647</b>	<b>(763,435)</b>	<b>8,594,212</b>

**17. Provision for claims**

Below is the analysis of provision for claims for the year ended 31 December 2017:

	2017		
	Gross	Reinsurer's part	Net
Provision for claims as at 1 January	1,411,839	(239,267)	1,172,572
Change in provision for claims	(406,965)	46,759	(360,206)
<b>Provision for claims as at 31 December</b>	<b>1,004,874</b>	<b>192,508</b>	<b>812,366</b>

Below is the analysis of provision for claims for the year ended 31 December 2016:

	2016		
	Gross	Reinsurer's part	Net
Provision for claims as at 1 January	1,208,257	(100,275)	1,107,982
Change in provision for claims	203,582	(138,992)	64,590
<b>Provision for claims as at 31 December</b>	<b>1,411,839</b>	<b>(239,267)</b>	<b>1,172,572</b>

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Below is the categorisation of provision for claims as at 31 December 2017 and 2016:

	2017	2016
Reported but not settled claims	551,002	949,497
Incurred but not reported claims	453,872	462,342
<b>Provision for claims as at 31 December</b>	<b>1,004,874</b>	<b>1,411,839</b>

**18. Payables**

	2017	2016
Ceded reinsurance premiums payable	344,352	281,893
Claims payable (Note 31)	90,229	463,086
Payable to agents	16,837	13,037
Other payables	16,750	12,817
<b>Total payables</b>	<b>468,168</b>	<b>770,833</b>

Claims payable to a related party, "MediClub" LLC, as per 31 December 2017 was of AZN 48,261 (2016: AZN 380,784).

**19. Deferred commission income**

	2017	2016
Deferred commission income at 1 January	61,557	82,773
Change in deferred commission income	(8,934)	(21,216)
<b>Deferred commission income as at 31 December</b>	<b>52,623</b>	<b>61,557</b>

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**20. Share capital and revaluation reserve**

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

	2017	2016
Number of shares	7,750	7,750
Par value	1291	1033
<b>Share capital</b>	<b>10,005,250</b>	<b>8,005,750</b>

Earnings per share (basic and diluted) for 2017 and 2016 were calculated as follows:

	2017	2016
Net profit for the year	1,654,617	2,455,980
Weighted average number of ordinary shares for basic earnings per share	7,750	7,750
<b>Earnings per share</b>	<b>213.50</b>	<b>316.90</b>

During 2017 the Company declared dividends payable to shareholders for results of 2017 and 2016 in total amounts of AZN 1,374,535 and AZN 2,818,937. Dividends paid in cash for profits earned during the year 2016 comprised AZN 737,494, dividends converted to increase share capital comprised AZN 1,999,500. Total amount of dividends payable to shareholders as at the end of the year is AZN 1,456,479.

The properties revaluation reserve arises on the revaluation of buildings and investment properties (Note 11,13).

	2017	2016
Revaluation reserve as at 1 January	76,928	81,982
Depreciation charge arising on revaluation of properties	(6,317)	(6,317)
Deferred tax liability arising on revaluation	1,263	1,263
<b>Revaluation reserve as at 31 December</b>	<b>71,874</b>	<b>76,928</b>

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**21. 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 2017:

	Insurance from fire	Vehicle insurance	Liability insurance	Travel insurance	Medical insurance	Other insurance	Total
Gross written premiums (Note 31)	186,844	244,206	69,490	60,911	11,779,441	17,685	12,358,577
Premiums ceded to reinsurers	(148,010)	(216,187)	(53,110)	(13,643)	(743,697)	(14,054)	(1,188,701)
<b>Net written premiums</b>	<b>38,834</b>	<b>28,019</b>	<b>16,380</b>	<b>47,268</b>	<b>11,035,744</b>	<b>3,631</b>	<b>11,169,876</b>
Change in provision for unearned premiums, net of reinsurance (Note 16)	5,950	16,309	(12,809)	3,953	381,110	3,640	398,153
<b>Premiums earned, net of reinsurance</b>	<b>44,784</b>	<b>44,328</b>	<b>3,571</b>	<b>51,221</b>	<b>11,416,854</b>	<b>7,271</b>	<b>11,568,029</b>
Claims paid (Note 31)	(8,601)	(140,128)	-	(17,034)	(7,948,105)	-	(8,113,868)
Claims ceded to reinsurers	8,510	115,523	-	8,517	92,293	-	224,843
<b>Net payments</b>	<b>(91)</b>	<b>(24,605)</b>	<b>-</b>	<b>(8,517)</b>	<b>(7,855,812)</b>	<b>-</b>	<b>(7,889,025)</b>
Change in provision for claims, net of reinsurance (Note 17)	(2,254)	7,499	(128)	(1,044)	356,133	-	360,206
<b>Net claims paid</b>	<b>(2,345)</b>	<b>(17,106)</b>	<b>(128)</b>	<b>(9,561)</b>	<b>(7,499,679)</b>	<b>-</b>	<b>(7,528,819)</b>

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Below is the analysis of premiums and claims by line of the Company's business for the year ended 31 December 2016:

	Insurance from fire	Vehicle insurance	Liability insurance	Travel insurance	Medical insurance	Other insurance	Total
Gross written premiums (Note 31)	197,121	156,525	69,136	54,091	11,947,693	20,909	12,445,475
Premiums ceded to reinsurers	(167,500)	(128,854)	(50,943)	(13,507)	(752,850)	(11,975)	(1,125,629)
<b>Net written premiums</b>	<b>29,621</b>	<b>27,671</b>	<b>18,193</b>	<b>40,584</b>	<b>11,194,843</b>	<b>8,934</b>	<b>11,319,846</b>
Change in provision for unearned premiums, net of reinsurance (Note 16)	18,939	62,856	(2,002)	(5,689)	(353,395)	340	(278,951)
<b>Premiums earned, net of reinsurance</b>	<b>48,560</b>	<b>90,527</b>	<b>16,191</b>	<b>34,895</b>	<b>10,841,448</b>	<b>9,274</b>	<b>11,040,895</b>
Claims paid (Note 31)	(1,421)	(243,488)	-	(2,929)	(8,129,749)	-	(8,377,587)
Claims ceded to reinsurers	1,366	204,336	-	1,422	37,094	-	244,218
<b>Net payments</b>	<b>(55)</b>	<b>(39,152)</b>	<b>-</b>	<b>(1,507)</b>	<b>(8,092,655)</b>	<b>-</b>	<b>(8,133,369)</b>
Change in provision for claims, net of reinsurance (Note 17)	956	11,263	(7,007)	103	(69,905)	-	(64,590)
<b>Net claims paid</b>	<b>901</b>	<b>(27,889)</b>	<b>(7,007)</b>	<b>(1,404)</b>	<b>(8,162,560)</b>	<b>-</b>	<b>(8,197,959)</b>

Concentration of gross written premiums by customers was as follows:

Customer	2017		2016	
	Gross written premiums	Percentage of total	Gross written premiums	Percentage of total
BP Exploration (Azerbaijan) Limited	5,941,360	48.08%	6,312,984	50.73%
Azercell Telecom	1,462,515	11.83%	1,495,153	12.01%
US Embassy	1,260,005	10.20%	1,308,640	10.51%
Swift Engineering	450,096	3.64%	393,587	3.16%
Others (Note 31)	3,244,601	26.25%	2,935,111	23.59%
<b>Total</b>	<b>12,358,577</b>	<b>100%</b>	<b>12,445,475</b>	<b>100%</b>

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The amount of gross written premiums with a related party, "MediClub" LLC, during the year 2017 was AZN 81,795 (2016: AZN 63,154).

The amount of claims paid to a related party, "MediClub" LLC, during the year 2017 was AZN 3,709,916 (2016: AZN 3,686,087).

**22. Net acquisition gains**

	2017	2016
Fee and commission income	135,049	125,500
Fee and commission expense	(111,994)	(39,677)
Change in deferred acquisition costs	3,134	(59,596)
Change in deferred commission income	8,934	21,216
<b>Net acquisition gains</b>	<b>35,123</b>	<b>47,443</b>

**23. Operating expenses**

	2017	2016
Salary and bonuses (Note 31)	1,053,729	1,021,058
Rent expense	114,000	114,257
Advertising expenses	109,380	14,154
Depreciation charge and amortization expense	103,083	99,948
Professional services	75,835	49,172
Bank commissions	67,939	144,870
Vehicle expenses	41,454	41,307
Regress expenses	25,783	-
Business trips	23,365	19,345
Printing and office supplies	20,741	8,645
Communication expenses	17,102	17,852
Taxes other than income tax	6,138	6,331
Other operating expenses	61,561	265,609
<b>Total operating expenses</b>	<b>1,720,110</b>	<b>1,802,549</b>

During the year 2017 the amount of remuneration paid to key management personnel was AZN 268,904 (2016: AZN 265,631).

**24. Interest income**

Interest income amounted AZN 178,517 and AZN 527,044 in 2017 and 2016 years respectively represents revenue earned from placing idle cash balances in deposits with banks (Note 7) with interest rates from 2% to 10% per annum (average 5%).

The amount of interest income from a related party, "AG Bank" OJSC, during the year 2017 comprises of AZN 149,689 (2016: AZN 186,361).

**25. Other income**

	2017	2016
Rent income (Note 31)	32,400	32,400
Other	154,012	56,024
<b>Total other income</b>	<b>186,412</b>	<b>88,424</b>

The entire rent income of the Company for both 2016 and 2017 are provided from a related party, "MediClub" LLC.

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## 26. 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.

The overall objective of the Management is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

**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.

Further disclosures regarding categories of financial instruments are provided below.

	2017	2016
Cash and bank accounts	9,238,071	7,798,169
Deposits with banks	3,666,181	8,170,971
Receivables	6,877,803	4,593,361
Reinsurance assets	914,975	1,002,701
<b>Total financial assets</b>	<b>20,697,030</b>	<b>21,565,202</b>
Provision for claims	1,004,874	1,411,839
Payables	468,168	770,833
Dividends payable	1,456,479	-
Other liabilities	82,548	40,079
<b>Total financial liabilities</b>	<b>3,012,069</b>	<b>2,222,751</b>

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Ageing analysis of not impaired and impaired financial assets as at 31 December 2017:

	Impaired financial assets				
	Not impaired	Less than 1 month overdue	From 1 to 6 months overdue	From 6 to 12 months overdue	Impaired but not overdue
Cash and bank accounts	9,238,071	-	-	417,073	-
Deposits with banks	3,666,181	-	-	-	-
Receivables	990,640	5,887,163	-	-	-
Reinsurance assets	914,975	-	-	-	-
<b>Total financial assets</b>	<b>14,809,867</b>	<b>5,887,163</b>	<b>-</b>	<b>417,073</b>	<b>-</b>
				<b>(417,073)</b>	<b>20,697,030</b>

Ageing analysis of not impaired and impaired financial assets as at 31 December 2016:

	Impaired financial assets				
	Not impaired	Less than 1 month overdue	From 1 to 6 months overdue	From 6 to 12 months overdue	Impaired but not overdue
Cash and bank accounts	7,798,169	-	-	-	-
Deposits with banks	8,170,971	-	-	-	416,260
Receivables	4,593,361	23,117	-	19,773	-
Reinsurance assets	1,002,701	-	-	-	-
<b>Total financial assets</b>	<b>21,565,202</b>	<b>23,117</b>	<b>-</b>	<b>19,773</b>	<b>416,260</b>
				<b>(459,150)</b>	<b>21,565,202</b>

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**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.

**Geographical risk.** All receivables from reinsurance business as at 31 December 2017 and 2016 are located in Azerbaijan. All sizeable liabilities of the Company are located in Azerbaijan.

**Foreign currency risk.** The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The table below summarises the Company's exposure to foreign currency exchange rate risk as at 31 December 2017:

	AZN	USD	Total
<b>Assets</b>			
Cash and bank accounts	194,888	9,043,183	9,238,071
Deposits with banks	95,971	3,570,210	3,666,181
Receivables	6,069,518	808,285	6,877,803
Reinsurance assets	914,975	-	914,975
<b>Total financial assets</b>	<b>7,275,352</b>	<b>13,421,678</b>	<b>20,697,030</b>
<b>Liabilities</b>			
Provision for claims	1,004,874	-	1,004,874
Payables	459,684	8,484	468,168
Dividends payable	-	1,456,479	1,456,479
Other liabilities	82,548	-	82,548
<b>Total financial liabilities</b>	<b>1,547,106</b>	<b>1,464,963</b>	<b>3,012,069</b>

The table below summarises the Company's exposure to foreign currency exchange rate risk as at 31 December 2016:

	AZN	USD	Total
<b>Assets</b>			
Cash and bank accounts	5,412,135	2,386,034	7,798,169
Deposits with banks	-	8,170,971	8,170,971
Receivables	3,537,426	1,055,935	4,593,361
Reinsurance assets	1,002,701	-	1,002,701
<b>Total financial assets</b>	<b>9,952,262</b>	<b>11,612,940</b>	<b>21,565,202</b>
<b>Liabilities</b>			
Provision for claims	1,411,839	-	1,411,839
Payables	768,004	2,829	770,833
Other liabilities	40,079	-	40,079
<b>Total financial liabilities</b>	<b>2,219,922</b>	<b>2,829</b>	<b>2,222,751</b>

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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 2017 and 2016.

	2017		2016	
	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 4% (2016: 10%)	478,269	382,615	1,161,011	928,809
USD depreciation by 4% (2016: 10%)	(478,269)	(382,615)	(1,161,011)	(928,809)

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.

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.

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The table below shows the maturity analysis of non-interest bearing financial liabilities as at 31 December 2017:

	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	4,951	416,886	6,907,208	1,589,481	8,918,526
Provision for claims	388,471	616,403	-	-	1,004,874
Payables	390,867	77,301	-	-	468,168
Deferred commission income	-	2,896	14,612	35,115	52,623
Dividends payable	1,456,479	-	-	-	1,456,479
Tax and other state payables	88,810	-	-	-	88,810
Other liabilities	82,548	-	-	-	82,548
<b>Total liabilities</b>	<b>2,412,126</b>	<b>1,113,486</b>	<b>6,921,820</b>	<b>1,624,596</b>	<b>12,072,028</b>

The table below shows the maturity analysis of financial liabilities as at 31 December 2016:

	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	7,680	668,228	8,590,385	91,354	9,357,647
Provision for claims	155,935	1,255,904	-	-	1,411,839
Payables	509,425	261,408	-	-	770,833
Deferred commission income	7,043	30,495	22,007	2,012	61,557
Tax and other state payables	401,928	-	-	-	401,928
Other liabilities	40,079	-	-	-	40,079
<b>Total liabilities</b>	<b>1,122,090</b>	<b>2,216,035</b>	<b>8,612,392</b>	<b>93,366</b>	<b>12,043,883</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 2% to 10% (Note 24).

**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.



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**27. 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.

As part of this review the cost of capital and the risks associated with each class of capital are considered.

Based on requirement by The Ministry of Finance of the Republic of Azerbaijan insurance companies should maintain capital for minimum amount of AZN 5,000,000 and maximum of 30% of the cash in one bank. The Company meets both requirements. Other than that the Company is not subject to any externally imposed capital requirements.

The Shareholder's overall strategy remains unchanged as per 31 December 2017 and 2016.

**28. 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.** Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Company's business activities, was to be challenged by the tax authorities, the Company may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on receivables, as an underestimation of the taxable profit. The management of the Company believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the current practice, the statute of limitation for tax liabilities may be extended beyond the three-year term set forth in the tax legislation, if a court determines that the taxpayers have obstructed or hindered a tax inspection.

As at 31 December 2017, 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.

**29. 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.

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*The notes set out on pages 9 to 39 are an integral part of these financial statements.*

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

**Insurance receivables.** 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.

**Insurance payables.** 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.

### **30. 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 2017 and 2016 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.



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**31. 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 2017 and 2016 were as follows:

		2017	2016
	Note	Related party transactions Total category	Related party transactions Total category
Cash and bank accounts – member of supervisory board and shareholder of the bank	6	9,238,071 693,238	7,798,169 106,298
Deposits with banks – member of supervisory board and shareholder of the bank	7	3,666,181 699,880	8,170,971 2,178,277
Claims payable – companies controlled by the shareholder	18	90,229 48,261	463,086 380,784
Dividends payable – settlements with the shareholder	20	1,456,479 1,456,479	- -
Gross written premiums – companies controlled by the shareholder	21	12,358,577 81,795	12,445,475 63,154
Claims paid – companies controlled by the shareholder	21	(8,113,868) (3,709,916)	(8,377,587) (3,686,087)
Operating expenses – key management personnel	23	(1,720,110) (268,904)	(1,802,549) (265,631)
Interest income – companies controlled by the shareholder	24	178,517 149,689	527,044 186,361
Other income – companies controlled by the shareholder	25	186,412 32,400	88,424 32,400

The main related party of the Company ("MediClub LLC") is a private hospital offering complex medical services. The Company uses medical support of "MediClub LLC" (thereafter referred as "related party")

*The notes set out on pages 9 to 39 are an integral part of these financial statements.*

mainly while insuring the employees of its clients. During the normal course of business the Company makes monthly advance payments to the related party and reduces the amount of further payment based on updated patients register and amounts due from the related party for services provided to date.

Starting from 1 May 2016 the Company entered in operating lease agreement with maturity date of 30 April 2018 for annual rent income of AZN 32,400. The contract was renewed as at 1 May 2018 for the next two years. As the effect of the deferred income from operating lease agreement has an immaterial effect on the financial statements we do not include an extensive disclosure note.

The other related party of the Company is "AG Bank" OJSC which acts as one of the main interest income providers for the Company.

The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

### **32. Subsequent events**

On 22 February 2018 the Company declared dividends for the year ended 31 December 2017 in the amount of AZN 1,374,535 for profits earned during the year 2017 (Note 20).

On 13 June 2018 the Company acquired a building for a purchase price of AZN 1,000,000.