"A-Group Insurance Company" OJSC

Financial Statements
for the Year Ended 31 December 2018
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 2018, 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 2018, 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 20 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.

Auditor's 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

2 August 2019

BDO

	Note	2018	2017
ASSETS			
Cash and bank accounts	6	6,563,578	9,238,071
Deposits with banks	7	6,758,840	3,666,181
Receivables	8	6,576,384	6,877,803
Reinsurance assets	9	1,033,972	914,975
Deferred acquisition costs	10	45,350	44,244
Property and equipment	11	259,841	311,812
Intangible assets	12	47,671	72,556
Investment property	13	1,597,420	357,100
Tax assets		-	438,938
Deferred tax assets	14	25,798	48,561
Other assets		17,234	19,011
TOTAL ASSETS		**22,926,088**	**21,989,252**
LIABILITIES AND EQUITY			
Liabilities			
Provision for unearned premiums	15	8,804,895	8,918,526
Provision for claims	16	1,158,486	1,004,874
Payables	17	384,919	468,168
Deferred commission income	18	59,451	52,623
Dividends payable	19	-	1,456,479
Income tax payable		141,782	-
Taxes payable other than income tax		22,819	88,810
Other liabilities		195,792	82,548
Total liabilities		10,768,144	12,072,028
Equity			
Share capital	19	10,005,250	10,005,250
Revaluation reserve	19	66,820	71,874
Retained earnings/(accumulated deficit)		2,085,874	(159,900)
Total equity		12,157,944	9,917,224
TOTAL LIABILITIES AND EQUITY		**22,926,088**	**21,989,252**

Anar Bayramov
Chairman of the Board

Natavan Imamguliyeva
Chief Accountant

2 August 2019

The notes set out on pages 9 to 38 are an integral part of these financial statements.

	Note	2018	2017
Gross written premiums		12,939,727	12,358,577
Premiums ceded to reinsurers		(1,058,873)	(1,188,701)
Net written premiums	20	**11,880,854**	**11,169,876**
Change in provision for unearned premiums, net of reinsurance		99,641	398,153
Premiums earned, net of reinsurance	20	**11,980,495**	**11,568,029**
Claims paid	20	(8,064,436)	(8,113,868)
Claims ceded to reinsurers	20	402,386	224,843
Change in provision for claims, net of reinsurance	20	(20,625)	360,206
Net acquisition gains	21	48,964	35,123
Insurance activity results		**4,346,784**	**4,074,333**
Operating expenses	22	(1,852,593)	(1,720,110)
Interest income	23	199,903	178,517
Foreign exchange gain/(loss)		42,103	(673,412)
Other income	24	74,467	186,412
Profit before tax		**2,810,664**	**2,045,740**
Income tax charge	14	(564,890)	(391,123)
Net profit for the year		**2,245,774**	**1,654,617**
Other comprehensive income/(loss)			
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
Other comprehensive loss for the year, net of tax		**(5,054)**	**(5,054)**
Total comprehensive income for the year		**2,240,720**	**1,649,563**
Earnings per share (basic and diluted)	19	289.78	213.50

Azerbaijan Republic Open Joint-Stock Company

Anar Bayramov
Chairman of the Board

Natavan Imamguliyeva
Chief Accountant

2 August 2019

The notes set out on pages 9 to 38 are an integral part of these financial statements.

	Note	Share capital	Revaluation reserve	Retained earnings /(accumulated deficit)	Total equity
1 January 2017		8,005,750	76,928	2,378,955	10,461,633
Increase in share capital		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	19	-	-	(2,193,972)	**(2,193,972)**
31 December 2017		**10,005,250**	**71,874**	**(159,900)**	**9,917,224**
Net profit for the year		-	-	2,245,774	**2,245,774**
Other comprehensive loss for the year, net of tax		-	(5,054)	-	**(5,054)**
Dividends declared	19	-	-	-	-
31 December 2018		**10,005,250**	**66,820**	**2,085,874**	**12,157,944**

Anar Bayramov
Chairman of the Board

Natavan Imamguliyeva
Chief Accountant

2 August 2019

	Note	2018	2017
Cash flows from operating activities			
Premiums received		12,977,443	9,733,527
Premiums paid		(503,160)	(641,498)
Claims paid		(7,831,619)	(8,304,526)
Reinsurance benefits received		94,660	57,824
Operating expenses paid		(1,714,049)	(1,659,836)
Commission paid		(115,059)	(101,947)
Interest received		281,780	285,366
Income tax paid		(20)	(919,000)
Other income received		27,834	57,875
Net cash inflow/(outflow) from operating activities		**3,217,810**	**(1,492,215)**
Cash flows from investing activities			
Investment in deposits with banks		(3,180,000)	-
Purchase of investment property	13	(1,240,320)	-
Property and equipment additions	11	(12,591)	(84,403)
Withdrawal of deposits with banks		-	4,143,450
Net cash (outflow)/inflow from investing activities		**(4,432,911)**	**4,059,047**
Cash flows from financing activities			
Dividends paid	19	(1,456,479)	(737,494)
Net cash outflow from financing activities		**(1,456,479)**	**(737,494)**
Effect of foreign exchange differences		(2,913)	(389,436)
Net (decrease)/increase in cash and bank accounts		(2,674,493)	1,439,902
Cash and bank accounts at the beginning of the year	6	**9,238,071**	**7,798,169**
Cash and bank accounts at the end of the year	6	6,563,578	9,238,071

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 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 220,060. The transaction has partly cash nature as the settlement between two parties resulted in Company receiving commission income in amount of AZN 2,200.
- Public utilities amounting AZN 5,564, rental services amounting AZN 32,400 and premiums for various insurance services amounting AZN 50,460 provided to "MediClub" LLC were countervailed with insurance claim payables for total amount of AZN 88,424.

Azerbaijan Republic Open Joint-Stock Company

Anar Bayramov
Chairman of the Board

Natavan Imamguliyeva
Chief Accountant

2 August 2019

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 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.

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 Adnayev, an Azerbaijani national.

The average number of the Company's employees in 2018 was 56 (2017: 54 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 2018 inflation in Azerbaijan decreased. The official inflation indices for the last three years are given in the table below:

Year ended	Inflation for the period
31 December 2018	2.3%
31 December 2017	13.0%

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 2018 and 31 December 2017 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:

Date	USD	EUR
31 December 2018	1.7000	1.9468
31 December 2017	1.7001	2.0307

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 2018

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 2018 (the list does not include information about new or amended requirements that affect interim financial reporting or first-time adopters of IFRSs - e.g. IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

New standards impacting the Company that will be adopted in the annual financial statements for the year ended 31 December 2018, and which have given rise to changes in the Company's accounting policies are

- 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.

b) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company has decided not to adopt early. The most significant of these are:

- 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. 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.

- IFRIC 23 *Uncertainty over Income Tax Positions* (effective 1 January 2019) - IFRIC 23 clarifies how to recognise and measure current and deferred income tax assets and liabilities when there is uncertainty over income tax treatments.

- The Company does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Company. The following is a list of other new and amended standards which, at the time of writing, had been issued by the IASB but which are effective in future periods. The amount of quantitative and qualitative detail to be given about each of the standards will, much like the amount of detail to be given about IFRS 16, depend on each entity's own circumstances:

  — Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (effective 1 January 2019)

  — Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures* (effective 1 January 2019)

  — Annual Improvements to IFRSs 2015-2017 Cycle (IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes*, and IAS 23 *Borrowing Costs*) (effective 1 January 2019)

  — IFRS 17 *Insurance Contracts* (effective 1 January 2021)

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 receivables and assets.

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

	2018	2017
Bank accounts, foreign currency (Note 30)	6,790,400	9,460,243
Bank accounts, AZN	189,512	190,578
Cash on hand	739	4,323
Allowance for impairment of bank accounts, foreign currency	(417,073)	(417,073)
Total cash and bank accounts	**6,563,578**	**9,238,071**

As at the end of 2018 allowance for impairment of bank accounts comprised of AZN 417,073. 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.

Bank accounts balances located in a related party, "AG Bank" OJSC, as per 31 December 2018 were AZN 4,654 (2017: AZN 693,238).

7. Deposits with banks

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

	2018	2017
Deposits with banks, foreign currency (Note 30)	4,250,000	3,570,210
Deposits with banks, AZN	2,500,000	-
Interest income receivable on deposits with banks	8,840	95,971
Total deposits with banks	**6,758,840**	**3,666,181**

Deposits with banks located in a related party, "AG Bank" OJSC, as per 31 December 2018 were nill (2017: AZN 699,880).

8. Receivables

	2018	2017
Receivables from direct insurance business	6,576,384	6,870,053
Receivables from reinsurance business	-	7,750
Total receivables	**6,576,384**	**6,877,803**

As per 31 December 2018 the Company did not have impaired receivables balances (Note 25).

Concentration of receivables as at 31 December 2018 and 2017 was as follows:

	2018		2017	
	Receivables	%	Receivables	%
Receivables from direct insurance business				
BP Exploration (Caspian Sea) Limited	5,250,258	81%	5,555,042	81%
SOCAQ AQS	371,005	4%	-	-
US Embassy	289,164	4%	783,965	11%
Weus Holding LLC, Azerbaijan branch	107,922	2%	106,369	2%
Others	558,035	9%	424,677	6%
Total receivables from direct insurance business	**6,576,384**	**100%**	**6,870,053**	**100%**
Receivables from reinsurance business				
Baki Sigorta	-	-	7,492	97%
Others	-	-	258	3%
Total receivables from reinsurance business	**-**	**-**	**7,750**	**100%**
Total receivables	**6,576,384**		**6,877,803**	

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

9. Reinsurance assets

	2018	2017
Reinsurer's share in provision for unearned premiums	708,477	722,467
Reinsurer's share in provision for claims	325,495	192,508
Total reinsurance assets	**1,033,972**	**914,975**

10. Deferred acquisition costs

	2018	2017
Deferred acquisition costs as at 1 January	44,244	41,110
Change in deferred acquisition costs	1,106	3,134
Deferred acquisition costs as at 31 December	**45,350**	**44,244**

11. Property and equipment

Movements in property and equipment for the year ended 31 December 2018 were as follows:

	Buildings	Furniture and fixtures	Computers and equipment	Vehicles	Other	Total
Book value						
31 December 2017	346,850	148,185	105,914	224,411	12,697	**838,057**
Additions	-	-	12,591	-	-	**12,591**
Disposals	-	(425)	(10,682)	-	-	**(11,107)**
31 December 2018	**346,850**	**147,760**	**107,823**	**224,411**	**12,697**	**839,541**
Accumulated depreciation						
31 December 2017	131,338	142,369	76,882	175,656	-	**526,245**
Depreciation charge	22,083	1,988	15,618	24,873	-	**64,562**
Eliminated on disposal	-	(425)	(10,682)	-	-	**(11,107)**
31 December 2018	**153,421**	**143,932**	**81,818**	**200,529**	**-**	**579,700**
Net book value						
31 December 2017	**215,512**	**5,816**	**29,032**	**48,755**	**12,697**	**311,812**
31 December 2018	**193,429**	**3,828**	**26,005**	**23,882**	**12,697**	**259,841**

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
Book value						
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)**
31 December 2017	**346,850**	**148,185**	**105,914**	**224,411**	**12,697**	**838,057**
Accumulated depreciation						
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)**
31 December 2017	**131,338**	**142,369**	**76,882**	**175,656**	**-**	**526,245**
Net book value						
31 December 2016	**237,595**	**8,119**	**38,223**	**18,806**	**12,697**	**315,440**
31 December 2017	**215,512**	**5,816**	**29,032**	**48,755**	**12,697**	**311,812**

The management believes that carrying value of the buildings to date is approximately the same as its revalued amount as of 31 December 2018 and 2017.

If the buildings were accounted at historical cost restated according to accumulated depreciation and impairment losses, its carrying value would be 75 thousand manats as at 31 December 2018 and 81 thousand manats as at 31 December 2017. The depreciation charge on revalued buildings during the year 2018 was AZN 6,317 (2017: AZN 6,317) and is included in statement of other comprehensive income.

As per 31 December 2018 and 2017 the financial statements of the Company include fully depreciated property and equipment as listed below:

	31 December 2018	31 December 2017
Furniture and fixtures	140,270	135,411
Vehicles	128,642	132,618
Computers and equipment	53,792	39,691
Other	12,698	12,697
Total fully depreciated property and equipment	**335,402**	**320,417**

12. Intangible assets

Movements in intangible assets for the year ended 31 December 2018 were as follows:

	Computer software	License	Total
Book value			
31 December 2017	119,000	5,425	124,425
31 December 2018	**119,000**	**5,425**	**124,425**
Accumulated amortisation			
31 December 2017	49,491	2,378	51,869
Amortisation expense	23,800	1,085	24,885
31 December 2018	**73,291**	**3,463**	**76,754**
Net book value			
31 December 2017	**69,509**	**3,047**	**72,556**
31 December 2018	**45,709**	**1,962**	**47,671**

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

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

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 87 thousand manats as at 31 December 2018 and 95 thousand manats as at 31 December 2017.

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 2018 and 2017.

On 12 May 2018 the Company acquired a building amounting 1 million manats and spent additional 240 thousand manats for overhaul of the premises. New building is planned to be leased out to "MediClub" LLC, a related party, as soon as the building will be ready for usage.

Since work done on renovations of newly acquired building as per accounting period end was incomplete and the premises haven't yet met basic utilization requirements, the management believes that costs incurred at that date reflect the market value of investment property as per 31 December 2018.

14. Deferred tax

Income tax expense comprises the following:

	2018	2017
Current income tax charge	540,864	354,364
Deferred income tax (credit)/charge	24,026	36,759
Total income tax charge for the year	**564,890**	**391,123**

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

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

	2018	2017
Profit before tax	2,810,664	2,045,740
Theoretical tax charge at the applicable statutory rate 20%	562,133	409,148
Non-deductible expenses less non-taxable income	2,757	(18,025)
Total income tax charge for the year	**564,890**	**391,123**

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 2017	(Charged)/credited to profit or loss	Balance as at 31 December 2018
Cash and bank accounts	83,089	163	83,252
Deposits with banks	(19,194)	16,376	(2,818)
Receivables	7,836	(7,999)	(163)
Reinsurance assets	22,501	(13,842)	8,659
Property and equipment	77,921	(2,237)	75,684
Intangible assets	8,831	1,505	10,336
Investment property	(71,420)	-	(71,420)
Other assets	5,262	435	5,697
Provision for claims	(70,515)	(20,713)	(91,228)
Other liabilities	4,250	3,549	7,799
Net tax assets	**48,561**	**(22,763)**	**25,798**

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
Net tax assets	**84,057**	**(35,496)**	**48,561**

Movement in deferred tax balances was as follows:

	2018	2017
Deferred tax asset as at 1 January	48,561	84,057
Deferred tax (charge)/credit for the year	(24,026)	(36,759)
Income tax relating to components of other comprehensive income	1,263	1,263
Deferred tax asset as at 31 December	**25,798**	**48,561**

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

15. Provision for unearned premiums

Below is the analysis of provision for unearned premium for the year ended 31 December 2018:

			2018
	Gross	Reinsurer's part	Net
Provision for unearned premiums as at 1 January	8,918,526	(722,467)	8,196,059
Change in provision for unearned premiums	(113,631)	13,990	(99,641)
Provision for unearned premiums as at 31 December	**8,804,895**	**(708,477)**	**8,096,418**

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)
Provision for unearned premiums as at 31 December	**8,918,526**	**(722,467)**	**8,196,059**

16. Provision for claims

Below is the analysis of provision for claims for the year ended 31 December 2018:

			2018
	Gross	Reinsurer's part	Net
Provision for claims as at 1 January	1,004,874	(192,508)	812,366
Change in provision for claims	153,612	(132,987)	20,625
Provision for claims as at 31 December	**1,158,486**	**(325,495)**	**832,991**

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)
Provision for claims as at 31 December	**1,004,874**	**(192,508)**	**812,366**

Below is the categorisation of provision for claims as at 31 December 2018 and 2017:

	2018	2017
Reported but not settled claims	632,625	551,002
Incurred but not reported claims	525,861	453,872
Provision for claims as at 31 December	**1,158,486**	**1,004,874**

17. Payables

	2018	2017
Ceded reinsurance premiums payable	208,388	344,352
Claims payable (Note 30)	157,693	90,229
Payable to agents	18,838	16,837
Other payables	-	16,750
Total payables	**384,919**	**468,168**

Claims payable to a related party, "MediClub" LLC, as per 31 December 2018 were AZN 73,296 (2017: AZN 48,261).

18. Deferred commission income

	2018	2017
Deferred commission income at 1 January	52,623	61,557
Change in deferred commission income	6,828	(8,934)
Deferred commission income as at 31 December	**59,451**	**52,623**

19. Share capital and revaluation reserve

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

	2018	2017
Number of shares	7,750	7,750
Par value	1291	1291
Share capital	**10,005,250**	**10,005,250**

Earnings per share (basic and diluted) for 2018 and 2017 were calculated as follows:

	2018	2017
Net profit for the year	2,245,774	1,654,617
Weighted average number of ordinary shares for basic earnings per share	7,750	7,750
Earnings per share	**289.78**	**213.50**

During 2019 the Company declared dividends payable to shareholders for results of 2018 in total amount of AZN 2,107,598 (Note 31). Dividends paid in cash for profits earned during the year 2018 comprised AZN 1,456,479.

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

	2018	2017
Revaluation reserve as at 1 January	71,874	76,928
Depreciation charge arising on revaluation of properties	(6,317)	(6,317)
Deferred tax liability arising on revaluation	1,263	1,263
Revaluation reserve as at 31 December	**66,820**	**71,874**

20. Premiums and claims analysis

Below is the analysis of premiums and claims by line of the Company's business for the year ended 31 December 2018:

	Insurance from fire	Vehicle insurance	Liability insurance	Travel insurance	Medical insurance	Other insurance	Total
Gross written premiums (Note 30)	74,371	558,511	78,196	64,353	12,146,053	18,243	12,939,727
Premiums ceded to reinsurers	(71,818)	(392,463)	(55,247)	(15,541)	(512,135)	(11,669)	(1,058,873)
Net written premiums	**2,553**	**166,048**	**22,949**	**48,812**	**11,633,918**	**6,574**	**11,880,854**
Change in provision for unearned premiums, net of reinsurance (Note 15)	19,091	(66,611)	(6,780)	945	153,671	(675)	99,641
Premiums earned, net of reinsurance	**21,644**	**99,437**	**16,169**	**49,757**	**11,787,589**	**5,899**	**11,980,495**
Claims paid (Note 30)	(29,160)	(242,424)	-	(81,319)	(7,711,533)	-	(8,064,436)
Claims ceded to reinsurers	25,280	161,928	-	40,612	174,566	-	402,386
Net payments	**(3,880)**	**(80,496)**	**-**	**(40,707)**	**(7,536,967)**	**-**	**(7,662,050)**
Change in provision for claims, net of reinsurance (Note 16)	3,714	(19,921)	(88)	(45,862)	41,537	(5)	(20,625)
Net claims paid	**(166)**	**(100,417)**	**(88)**	**(86,569)**	**(7,495,430)**	**(5)**	**(7,682,675)**

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 30)	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)
Net written premiums	**38,834**	**28,019**	**16,380**	**47,268**	**11,035,744**	**3,631**	**11,169,876**
Change in provision for unearned premiums, net of reinsurance (Note 15)	5,950	16,309	(12,809)	3,953	381,110	3,640	398,153
Premiums earned, net of reinsurance	**44,784**	**44,328**	**3,571**	**51,221**	**11,416,854**	**7,271**	**11,568,029**
Claims paid (Note 30)	(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
Net payments	**(91)**	**(24,605)**	**-**	**(8,517)**	**(7,855,812)**	**-**	**(7,889,025)**
Change in provision for claims, net of reinsurance (Note 16)	(2,254)	7,499	(128)	(1,044)	356,133	-	360,206
Net claims paid	**(2,345)**	**(17,106)**	**(128)**	**(9,561)**	**(7,499,679)**	**-**	**(7,528,819)**

Concentration of gross written premiums by customers was as follows:

Customer		2018		2017
	Gross written premiums	Percentage of total	Gross written premiums	Percentage of total
BP Exploration (Caspian Sea) Limited	5,408,649	42,17%	5,941,360	48.08%
Azercell Telecom	1,439,661	11,22%	1,462,515	11,83%
SOCAR AQS	477,656	2,85%	-	-
US Embassy	284,116	2,21%	1,260,005	10.20%
Swift Engineering	272,615	2,13%	450,096	3.64%
Others (Note 30)	5,057,030	39,42%	3,244,601	26.25%
Total	**12,939,727**	100%	**12,358,577**	100%

The amount of gross written premiums with a related party, "MediClub" LLC, during the year 2018 was AZN 65,875 (2017: AZN 81,795).

The amount of claims paid to a related party, "MediClub" LLC, during the year 2018 was AZN 2,730,592 (2017: AZN 3,709,916).

21. Net acquisition gains

	2018	2017
Fee and commission income	174,817	135,049
Fee and commission expense	(120,131)	(111,994)
Change in deferred acquisition costs	1,106	3,134
Change in deferred commission income	(6,828)	8,934
Net acquisition gains	**48,964**	**35,123**

22. Operating expenses

	2018	2017
Salary and bonuses (Note 30)	1,113,746	1,053,729
Rent expense	114,000	114,000
Advertising expenses	18,448	109,380
Depreciation charge and amortization expense	81,684	103,083
Professional services	80,016	75,835
Bank commissions	80,059	67,939
Vehicle expenses	49,100	41,454
Regress expenses	5,364	25,783
Business trips	9,892	23,365
Printing and office supplies	16,396	20,741
Communication expenses	18,976	17,102
Taxes other than income tax	72,546	6,138
Other operating expenses	192,366	61,561
Total operating expenses	**1,852,593**	**1,720,110**

During the year 2018 the amount of remuneration paid to key management personnel was AZN 204,394 (2017: AZN 268,904).

23. Interest income

Interest income amounted AZN 199,903 and AZN 178,517 in 2018 and 2017 years respectively represents revenue earned from placing idle cash balances in deposits with banks (Note 7) with interest rates from 1.5% to 9% per annum (average 4%).

The amount of interest income from a related party, "AG Bank" OJSC, during the year 2018 comprises of AZN 20,074 (2017: AZN 149,689).

24. Other income

	2018	2017
Rent income (Note 30)	32,400	32,400
Other	42,067	154,012
Total other income	**74,467**	**186,412**

The entire rent income of the Company for both 2018 and 2017 were provided from a related party, "MediClub" LLC.

25. Risk management

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

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.

	2018	2017
Cash and bank accounts	6,563,578	9,238,071
Deposits with banks	6,758,840	3,666,181
Receivables	6,576,384	6,877,803
Reinsurance assets	1,033,972	914,975
Total financial assets	**20,932,774**	**20,697,030**
Provision for claims	1,158,486	1,004,874
Payables	384,919	468,168
Dividends payable	-	1,456,479
Other liabilities	195,792	82,548
Total financial liabilities	**1,739,197**	**3,012,069**

Ageing analysis of not impaired and impaired financial assets as at 31 December 2018:

	Not impaired	Impaired financial assets: Less than 1 month overdue	Impaired financial assets: From 1 to 6 months overdue	Impaired financial assets: From 6 to 12 months overdue	Impaired but not overdue	Provision for impairment	Total
Cash and bank accounts	6,563,578	-	-	417,073	-	(417,073)	6,563,578
Deposits with banks	6,758,840	-	-	-	-	-	6,758,840
Receivables	1,276,217	5,300,167	-	-	-	-	6,576,384
Reinsurance assets	1,033,972	-	-	-	-	-	1,033,972
Total financial assets	**15,632,607**	**5,300,167**	**-**	**417,073**	**-**	**(417,073)**	**20,932,774**

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

	Not impaired	Impaired financial assets: Less than 1 month overdue	Impaired financial assets: From 1 to 6 months overdue	Impaired financial assets: From 6 to 12 months overdue	Impaired but not overdue	Provision for impairment	Total
Cash and bank accounts	9,238,071	-	-	417,073	-	(417,073)	9,238,071
Deposits with banks	3,666,181	-	-	-	-	-	3,666,181
Receivables	990,640	5,887,163	-	-	-	-	6,877,803
Reinsurance assets	914,975	-	-	-	-	-	914,975
Total financial assets	14,809,867	5,887,163	-	417,073	-	(417,073)	20,697,030

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 2018 and 2017 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 2018:

	AZN	USD	Total
Assets			
Cash and bank accounts	190,251	6,373,327	6,563,578
Deposits with banks	2,508,840	4,250,000	6,758,840
Receivables	6,283,979	292,405	6,576,384
Reinsurance assets	1,033,972	-	1,033,972
Total financial assets	**10,017,042**	**10,915,732**	**20,932,774**
Liabilities			
Provision for claims	1,158,486	-	1,158,486
Payables	384,919	-	384,919
Other liabilities	195,792	-	195,792
Total financial liabilities	**1,739,197**	**-**	**1,739,197**
Net balance sheet position	**8,277,846**	**10,915,732**	**19,193,577**

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

	AZN	USD	Total
Assets			
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
Total financial assets	**7,275,352**	**13,421,678**	**20,697,030**
Liabilities			
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
Total financial liabilities	**1,547,106**	**1,464,963**	**3,012,069**
Net balance sheet position	**5,728,246**	**11,956,715**	**17,684,961**

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 2018 and 2017.

	2018		2017	
	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% (2017: 4%)	436,557	349,246	478,269	382,615
USD depreciation by 4% (2017 4: %)	(436,557)	(349,246)	(478,269)	(382,615)

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.

The table below shows the maturity analysis of non-interest-bearing financial liabilities as at 31 December 2018:

	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	135,327	625,617	7,908,443	135,508	8,804,895
Provision for claims	1,158,486	-	-	-	1,158,486
Payables	384,919	-	-	-	384,919
Deferred commission income	-	7,190	37,753	14,508	59,451
Income tax payable	141,782	-	-	-	141,782
Tax and other state payables	22,819	-	-	-	22,819
Other liabilities	195,792	-	-	-	195,792
Total liabilities	**2,039,125**	**632,807**	**7,946,196**	**150,016**	**10,768,144**

The table below shows the maturity analysis of 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
Total liabilities	**2,412,126**	**1,113,486**	**6,921,820**	**1,624,596**	**12,072,028**

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 23).

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

The Company controls underwriting risks through:

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

26. Capital management

The Company's capital management has the following objectives:

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

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

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 2018 and 2017.

27. Contingent liabilities

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

Tax legislation. 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 has obstructed or hindered a tax inspection.

As at 31 December 2018, the management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency and customs positions will be sustained by controlling bodies.

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

28. Fair value of financial instruments

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

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

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

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.

29. Reconciliation of categories of financial instruments with measurement categories

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

At the same time, in accordance with IFRS 7 "Financial Instruments: Disclosures" the Company discloses different classes of financial instruments. As at 31 December 2018 and 2017 all financial assets of the Company were classified as loans and receivables.

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

30. Related party transactions

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

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

The outstanding balances at the year end and asset transactions with related parties as of 31 December 2018 and 2017 were as follows:

	Note	2018 Related party transactions	2018 Total category	2017 Related party transactions	2017 Total category
Cash and bank accounts	6		6,563,578		9,238,071
– member of supervisory board of directors with significant influence over a company		4,654		693,238	
Deposits with banks	7		6,758,840		3,666,181
– member of supervisory board of directors with significant influence over a company		-		699,880	
Claims payable	17		157,693		90,229
– companies controlled by the shareholder		73,296		48,261	
Dividends payable	19		-		1,456,479
– settlements with the shareholder		-		1,456,479	
Gross written premiums	20		12,939,727		12,358,577
– companies controlled by the shareholder		65,875		81,795	
Claims paid	20		(8,064,436)		(8,113,868)
– companies controlled by the shareholder		(2,730,592)		(3,709,916)	
Operating expenses	22		(1,852,593)		(1,720,110)
– key management personnel		(204,394)		(268,904)	
Interest income	23		199,903		178,517
– member of supervisory board of directors with significant influence over a company		20,074		149,689	
Other income	24		74,467		186,412
– companies controlled by the shareholder		32,400		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") mainly while insuring the employees of it's 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 remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

31. Subsequent events

On 23 January 2019 the Company declared dividends for the year ended 31 December 2018 in the amount of AZN 2,107,598 for profits earned during the year 2018 (Note 19).