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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 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and consolidated 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 2019, 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics of Professional Accountants of the International Ethics Standards Board for Accountants ("IESBA" Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of matter

Without qualifying our opinion, we draw your attention to Note 23 to the financial statements which describes significant concentration of business.

Without qualifying our opinion, we draw your attention to Note 33 to the financial statements which describes the effect of COVID-19's impact for the Company's financial statements and its further activities.

Responsibilities of Management and Those Charged with Governance for the Consolidated 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 the financial statements that are free from material misstatements, 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 for accounting, unless management either intends to liquidate the Company or to cease operations or has 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 it does not 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 International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the internal control system that is relevant for 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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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

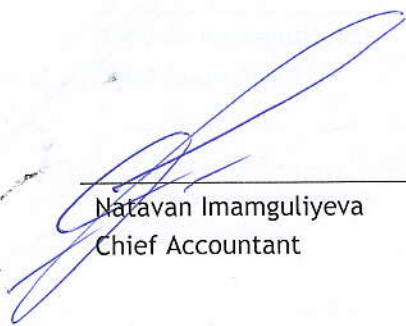
7 December 2020



"A-Group Insurance Company" OJSC
Statement of financial position as at 31 December 2019
In Azerbaijani manats, unless otherwise indicated

	Notes	2019	2018
ASSETS			
Cash and banks accounts	6	9,190,503	6,563,578
Deposits with banks	7	8,836,089	6,758,840
Receivables	8	1,295,559	6,576,384
Reinsurance assets	9	1,449,864	1,033,972
Deferred acquisition casts	10	209,102	45,350
Property and equipment	11	521,108	259,841
Intangible assets	12	22,786	47,671
Investment property	13	1,996,237	1,597,420
Right-of-use assets	14	120,660	-
Income tax assets		72,483	-
Deferred tax assets	15	57,785	25,798
Other assets	16	122,456	17,234
TOTAL ASSETS		23,894,632	22,926,088
LIABILITIES AND EQUITY			
Liabilities			
Provision for unearned premiums	17	9,974,959	8,804,895
Provision for claims	18	1,526,644	1,158,486
Lease liabilities		139,601	-
Payables	19	477,784	384,919
Deferred commission income	20	79,254	59,451
Income tax payable		-	141,782
Taxes payable other than income tax		11,830	22,819
Other liabilities	21	188,183	195,792
Total liabilities		12,398,225	10,768,144
Equity			
Share capital	22	10,005,250	10,005,250
Revaluation reserve	22	61,766	66,820
Retained earnings		1,429,361	2,085,874
Total liabilities		11,496,407	12,157,944
TOTAL LIABILITIES AND EQUITY		23,894,632	22,926,088


Anar Bayramov
Chairman of the Board


Natavan Imamguliyeve
Chief Accountant

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

"A-Group Insurance Company" OJSC

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019
In Azerbaijani manats, unless otherwise indicated

	Notes	2019	2018
Gross written premiums		14,811,975	12,939,727
Premiums ceded to reinsurers		(1,812,650)	(1,058,873)
Net written premiums		12,999,325	11,880,854
Changes in provision for unearned premiums, net of reinsurance		(835,677)	99,641
Premiums earned, net of reinsurance	23	12,163,648	11,980,495
Claims paid	23	(8,537,942)	(8,064,436)
Claims ceded to reinsurers	23	399,129	402,386
Change in provision for claims, net of reinsurance	23	(286,653)	(20,625)
Net acquisition gains	24	(51,542)	48,964
Insurance activity results		3,686,640	4,346,784
Operating expenses	25	(2,135,053)	(1,858,910)
Provision for impairment loss on financial assets		(43,834)	-
Interest income, net	26	224,203	199,903
Foreign exchange gain/(loss)		19,119	42,103
Lease income	27	80,400	74,467
Profit before income tax		1,831,475	2,804,317
Income tax expenses	15	(376,525)	(563,627)
Net Profit for the year		1,454,950	2,240,720
Other comprehensive income/(loss)		-	-
Total comprehensive income/(loss), net of tax		1,454,950	2,240,720
Earnings per share (basic and diluted)	22	187.74	289.78

Anar Bayramov
Chairman of the Board

Natavan Imamgulyeva
Chief Accountant

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"A-Group Insurance Company" OJSC

Statement of changes in equity for the year ended 31 December 2019

In Azerbaijani manats, unless otherwise indicated

	Note	Share capital	Revaluation reserve	Retained earnings/ (accumulated deficit)	Total equity
As of 1 January 2018		10,005,250	71,874	(159,900)	9,917,224
Net profit for the year		-	-	2,240,720	2,240,720
Other comprehensive loss for the year, net of tax		-	(5,054)	5,054	-
Dividends declared		-	-	-	-
As of 31 December 2018		10,005,250	66,820	2,085,874	12,157,944
The effect of a change in accounting policy (IFRS 16 "Lease")		-	-	(8,923)	(8,923)
As of 1 January 2019		10,005,250	66,820	2,076,951	12,149,021
Net profit for the year		-	-	1,454,950	1,454,950
Other comprehensive loss for the year, net of tax		-	(5,054)	5,054	-
Dividends declare		-	-	(2,107,594)	(2,107,594)
As of 31 December 2019		10,005,250	61,766	1,429,361	11,496,377

Anar Bayramov
Chairman of the Board

Natavan Imamgulyeva
Chief Accountant

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

"A-Group Insurance Company" OJSC
Statement of cash flows for the year ended 31 December 2019
In Azerbaijani manats, unless otherwise indicated

	Notes	2019	2018
Cash flows from operating activities			
Premiums received		19,572,006	12,977,443
Premiums paid		(846,818)	(503,160)
Claims paid		(8,445,716)	(7,831,619)
Reinsurance benefits received		39,420	94,660
Operating expenses paid		(1,964,712)	(1,714,049)
Commission paid		(422,214)	(115,059)
Interest received		233,570	281,780
Income tax paid		(628,642)	(20)
Other income received		31,227	27,834
Net cash inflow/(outflow) from operating activities		7,568,121	3,217,810
Cash flows from investing activities			
Investment in deposit with banks		(2,050,000)	(3,180,000)
Purchase of investment property		(398,817)	(1,240,320)
Property and equipment additions		(352,288)	(12,591)
Net cash (outflow)/inflow from investing activities		(2,801,105)	(4,432,911)
Cash flows from financing activities			
Dividends paid	19	(2,107,598)	(1,456,479)
Net cash outflow from financing activities		(2,107,598)	(1,456,479)
Effect of foreign exchange difference on cash and cash equivalents		(26,778)	(2,913)
Net increase/(decrease) in cash and cash equivalents		2,632,640	(2,674,493)
Change in impairment provision		(5,715)	-
Cash and cash equivalents as of 1 January	6	6,563,578	9,238,071
Cash and cash equivalents as of 31 December	6	9,190,503	6,563,578

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:

- Public utilities amounting AZN 10,494, rental services amounting AZN 80,400 and premiums for various insurance services amounting AZN 52,977 provided to "MediClub" were countervailed with insurance claim payables for total amount of AZN 143,871

Anar Bayramov
Chairman of the Board

Natavan Imamgulyeva
Chief Accountant

"A-Group Insurance Company" OJSC

Notes to the financial statements for the year ended 31 December 2019
in Azerbaijani manats, unless otherwise indicated

1. Principal activities of the Company

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

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

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

The average number of the Company's employees in 2019 was XX (2018: 56 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, 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 2019 inflation in Azerbaijan slightly increased. The official inflation indices for the last two years are given in the table below:

Year ended	Inflation for the period
31 December 2019	2.60%
31 December 2018	2.33%

Financial market transactions

In preparing the financial statements of the Company, transaction 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 a foreign currency that are measured at fair value are translated to the functional currency at the exchange rates 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 transaction are recognised in profit or loss.

As at 31 December 2019 and 31 December 2018 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:

	USD	EUR
31 December 2019	1.700	1.9035
31 December 2018	1.700	1.9468

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

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

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

Estimates and assumptions

The preparation of the financial statements requires the use of 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 source 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

In preparing these financial statements, the Company applied the same accounting policies and calculation methods as when preparing the financial statements for the year ended 31 December 2018, taking into account the new amendments to the standards. The Company adopted no other standards, interpretations or amendments that have been issued but not yet effective.

a) *New standards, interpretations and amendments effective from 1 January 2019*

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 2019:

- IFRS 16 “Leases”
- Annual Improvements to IFRS 2015-2017 cycle

IFRS 16 “Lease”

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases, IFRIC 4 Interpretation Determining whether an Arrangement Contains a Lease, SIC 15 Interpretation Operating Leases - Incentives and SIC 27 Evaluating

the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. Thus, the adoption of IFRS 16 has had no impact on the accounting treatment of leases in which the Group acted as a lessor.

IFRS 16 distinguishes leases and service contracts based on whether an identified asset is controlled by a customer.

Effect of the new definition of a lease

The Company has applied a practical expedient proposed as part of the transition to IFRS 16, which allows not to determine whether an arrangement is or contains a lease. Accordingly, the definition of leases under IAS 17 and IFRIC 4 is still applied to the leases concluded or changed before 1 January 2019.

A change in the definition of a lease relates primarily to the 'control' concept. This contrasts with the emphasis on 'risks and rewards' in IAS 17 and IFRS 4. IFRS 16 distinguishes between lease agreements and service contracts based on whether the buyer controls the identified asset. The identified asset is controlled if the customer has:

- The right to receive almost all economic benefits from the use of the identified asset; and
- The right to directly use such an asset.

The Company has applied the definition of a lease and related guidance in IFRS 16 to all leases entered into or amended as at 1 January 2019 or after that date. In preparing for the first application of IFRS 16, the Company completed an implementation project. This project demonstrated that a new description of IFRS 16 requirements would not entail significant changes in estimating the Company's existing agreements meeting the definition of a lease.

Operating lease

There is no longer a separation between an operating lease (off-balance-sheet accounting) and financial lease (on the balance sheet accounting) for the lessee. Instead the model is used, according to which the right-of-use asset and the corresponding liability for all lease contracts (on the balance sheet accounting for all contracts) must be recognized, except for short-term lease and lease of low-cost assets.

Upon the initial application of IFRS 16 to all leases (except as noted below), the Company:

- Recognizes in the statement of financial position lease liabilities. Lease liabilities during the transition were initially measured at the present value of the lease payments discounted using the rate of raising additional borrowed funds at the date of initial application - 1 January 2019. Right-of-use assets were initially recognized at cost as corresponding to the lease liability since the Group used a simplified approach for contracts previously classified as operating leases.
- Recognises in the statement of profit and loss the amortisation of right-of-use assets as depreciation and amortization expenses within expenses of the period and interest on lease liabilities in Finance Costs;
- Separates in the statement of cash flows the total amount of cash spent to repay the principal amount (reported in financing activities) and interest (reported in operating activities).

According to IFRS 16, testing of the right-of-use assets for impairment is carried out under IAS 36 Impairment of Assets. This provision has replaced the previous requirement regarding the recognition of a provision for loss-making leases.

For short-term leases (up to 12 months) and leases of low-value assets, the Company recognized lease expenses evenly, as permitted by IFRS 16.

Incentives (for example, a free (grace) period) are recognized as part of the right-of-use assets measurement and lease liabilities, while under IAS 17 they are recognized as lease income, amortized as a reduction in lease costs on a straight-line basis.

Effect of Adoption of IFRS 16

The Company has applied IFRS 16 using a modified retrospective approach of the standard with an initial application date of 1 January 2019. Under this approach, the cumulative effect of initial application of IFRS 16 is recognized as an adjustment to equity at the date of initial application.

"A-Group Insurance Company" OJSC

Notes to the financial statements for the year ended 31 December 2019 (continued)
in Azerbaijani manats, unless otherwise indicated

Following the adoption of IFRS 16, the Company has adopted a uniform accounting and measurement approach for all leases for which it is a lessee, recognition exemptions for leases that have a lease term of 12 months or less at the commencement date and do not contain a call option (short-term leases) and leases for which the underlying asset is of low value (assets with a low value).

As at 31 December 2019, the application of IFRS 16 had impact on the Company's financial statements.

Annual Improvements to IFRS, 2015-2017 cycle. IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs

In the current year, the Company for the first time applied the amendments included in the Annual Improvements to IFRS for 2015-2017. Annual improvements include amendments to the following four standards:

- IAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

- IAS 23 Borrowing Costs

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

- ✓ IFRS 3 Business Combinations

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

- ✓ IFRS 11 Joint Arrangements

The amendments to IFRS 11 clarify that when a party that participates in but does not have joint control of a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its previously held interest in the joint operation.

- ✓ IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies how to account for income tax when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether it is necessary to assess each uncertain tax position individually or together with other uncertain tax positions;
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
- If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

These amendments have no significant impact on the Company's financial statements.

b) Standards and interpretations issued but not yet effective

There are several standards, amendments and interpretations that have been issued but not yet effective as of 31 December 2019 and were not used during the preparation of these financial statements. The Company plans to apply the standards, amendments and interpretations since they become effective:

- IFRS 17 Insurance Contracts
- IFRS 10 Consolidated Financial Statements and IAS 28 (Amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 3
- Amendments to IAS 1 and IAS 8
- Conceptual framework.

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

IFRS 17 Insurance Contracts

The new Standard establishes principles for the recognition, measurement, presentation and disclosure of information related to insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a General Model, which is modified for insurance contracts with direct participation features and described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty. The model takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard becomes effective for annual reporting periods beginning on or after 1 January 2021; early adoption is permitted. In June 2019, the IASB published a preliminary draft amendment to IFRS 17, including the postponement of its effective date until 1 January 2022. It can be applied retrospectively excluding the cases where it is near-impossible; in these cases, the entity applies a modified retrospective approach or fair value approach.

To meet the transitional requirements, the date of initial application is the beginning of the annual reporting period in which the entity first applies the standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The management of the Company expects that the application of this standard will have a significant impact on the financial statements during the period of first application, but has not yet performed a detailed analysis.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets in Transactions between the Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. In particular, the amendments clarify that gain or loss due to the loss of control over a subsidiary that is not a business in a transaction with an associate or joint venture that are accounted for using the equity method are recognized in profit or loss of the parent only in for the unrelated investors in this associate or joint venture. Similarly, gain or loss on remeasurement to the fair value of the remaining interest in the former subsidiary (which has become an associate or joint venture and accounted for using the equity method) are recognized in the profit or loss of the former parent only in the share of unrelated investors in the new associate or joint venture.

The effective date shall be determined by the IASB. Early application is permitted.

Amendments to IFRS 3 Definition of a Business

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

The amendments also remove the assessment of whether market participants are capable of replacing any missing elements or processes with their contributions and processes to the ongoing receiving an output.

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business in line with IFRS 3 Business Combination.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 01 January 2020. Earlier application is permitted.

Definition of Material - Amendments to IAS 1 and IAS 8

The amendments are made to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. This idea is introduced in the new definition. The amendments replaced the threshold 'could influence', which suggests that any potential influence of users must be considered, with 'could reasonably be expected to influence' in the definition of 'material'.

“A-Group Insurance Company” OJSC

Notes to the financial statements for the year ended 31 December 2019 (continued)
in Azerbaijani manats, unless otherwise indicated

The definition of material in IAS 8 was replaced with the reference to IAS 1. The IASB amended the other standards and the Conceptual Framework that reference to the definition of a material or use this term to be applied consistently.

The amendments are effective for annual periods beginning on or after 1 January 2020 and are applied prospectively. Earlier application is permitted.

Amendments to the reference of the Conceptual Frameworks in IFRS

Alongside the revised Conceptual Framework effective after publication on 29 March 2018, the IASB also issued Amendments to the references to the Conceptual Framework in IFRS. The document covers amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32.

However, not all amendments update the provisions for references and citations so that they refer to a revised Conceptual Framework. Some provisions are amended only to indicate which version of the Concept they are referring to (the IASB principles adopted by the IASB in 2001, the IASB 2010 Concept or the new revised 2018 Concept) or indicate that the definitions in the Standard have not been updated with new definitions developed in a revised Conceptual Framework.

Amendments that are in fact updates become effective for annual periods beginning on or after 1 January 2020, with early adoption permitted.

Management does not expect that the application of the above standards will have a material impact on the Company's 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;
- Insurance and reinsurance receivables.

The Company determines the classification of its financial assets at initial recognition. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchase 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

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

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 group 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.

For specific categories of financial assets, such as receivables from insurance and reinsurance, assets that were not individually determined to be impaired are also assessed for impairment as a whole for the portfolio. An objective sign of a decline in the value of a portfolio of receivables can be the Company's past experience in debt collection, an increase in the number of delays in repayment of debt on the portfolio, as well as pronounced changes in the national and local economy, which are usually accompanied by default on payments.

If it is impossible to collect insurance and reinsurance receivables, including through the foreclosure of collateral, they are written off against the allowance for impairment losses. Insurance and reinsurance receivables are written off after the management of the Company has taken all possible measures to collect the amounts due to the Company. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of comprehensive income in the period of recovery.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset, or part of a group 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 one party (the insurer) accepts a substantial insurance risk from the other party (the insured), agreeing to make payment to the insured upon occurrence in the future of the agreed unforeseen event (insured event) which had an adverse effect on the reinsured.

Such contracts are also exposed to financial risk.

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

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

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

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

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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 non-life insurance.

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

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

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

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

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

Reinsurance

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

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

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

Deferred commission income

Commission income represent commission associated with reinsurance business and is primarily related to the reinsurance of mandatory and voluntary insurance contracts. Commission income is deferred and

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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 cash equivalents

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

Deposits with banks

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

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised when the related income is received and measured on initial recognition at the fair value of the consideration to be received. After initial recognition, insurance receivables are measured at amortized cost using the effective interest method. The carrying amount of insurance receivables is the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of insurance receivables is assessed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable and the impairment loss is recognized in the income statement.

Insurance receivables are derecognised when the derecognition criteria for financial assets are met.

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Property and equipment

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

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

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

Intangible assets acquired separately

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

Intangible assets of the Company are accounting software and license. Useful life 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.

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Lease

A definition of whether the contract is a lease contract or whether it contains indications of a lease is based on an analysis of the contract content at the date of lease commencement. The contract is a lease contract or contains indications of a lease if the contract implementation depends on the use of a particular asset or assets and the right to use the asset or assets as a result of this contract transfers from one party to another, even if it is not explicitly stated in the contract.

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.

The Company as a lessee

The Company applies a unified approach to recognition and assessment of lease apart from short-term and low-value assets leases. The Company recognised lease liabilities for lease payments and right-of-use assets that represent the right to use underlying assets.

The Company recognises right-of-use assets at commencement of the lease (i.e. at the date on which the underlying asset becomes available for use). Right-of-use assets are measured at historical cost less accumulated amortisation and accumulated impairment losses, adjusted for remeasurement of lease liabilities. The historical cost of the right-of-use asset includes the recognised lease liabilities, initial direct costs incurred and lease payments incurred on or before the lease date. If the lease transfers ownership of the Company's underlying asset before the lease end, or if the historical cost of the right-of-use asset contains the Company's intention to exercise the purchase option, the Company amortises the right-of-use asset from commencement of the lease to the end of the underlying asset's useful life. Otherwise, the Company depreciates the asset in the form of a right of use from the start date of the lease to the earlier of the following dates: the end date of the useful life of the asset in the form of a right of use or the end date of the lease.

Right-of-use assets are also tested for impairment.

For short-term leases or leases with a low value of an underlying asset, the Company recognises lease payments as an expense on a straight-line basis over the lease term.

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.

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

Fees, commissions and other income and expense items are recorded on an accrual basis after the service is provided.

Employee benefits and social insurance contributions

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

Segment reporting

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

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

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- 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 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 of land and buildings in Note 11.

Useful lives of property and equipment and intangible assets

The Company assesses the remaining useful life of the property and equipment and intangible assets at least at the end of each financial year and, if expectations differ from previous estimates, the changes are shown as changes in accounting estimates as per IAS 8 Accounting policies, changes in accounting estimates and errors. These estimates may have a significant effect on the carrying amounts of the property and equipment and those of intangible assets as well as the amount of depreciation and amortisation recognised in profit and loss.

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 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 risk 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

	31.12.2019	31.12.2018
Bank accounts, foreign currency (Note 30)	6,871,977	6,790,400
Bank account, AZN	2,738,281	189,512
Cash on hand	3,033	739
Allowance for impairment of bank accounts, foreign currency	(422,788)	(417,073)
Total cash and bank accounts	9,190,503	6,563,578

As at the end of 2019 allowance for impairment of bank account comprise of AZN 5,715. The amount represents accounts in "Azerqazbank" OJSC, which license was cancelled by the decision of the Board of the Central Bank of Azerbaijan (CBA) dated 12 May 2020.

As at the end of 2018 allowance for impairment of bank account 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 2019 were AZN 5,715 (2018: AZN 4,654).

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7. Deposits with banks

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

	31.12.2019	31.12.2018
Deposits with banks, foreign currency (Note 30)	2,000,000	4,250,000
Deposit with bank, AZN	6,800,000	2,500,000
Interest income receivable on deposits with banks	36,089	8,840
Total deposits with banks	8,836,089	6,758,840

8. Receivables

	31.12.2019	31.12.2018
Receivables from direct insurance business	1,333,678	6,576,384
Allowance for impairment	(38,119)	-
Total receivables	1,295,559	6,576,384

As per 31 December 2019 the Company accrued provision for impairment for full amount of Aran Oil Operating Company LLC's receivable due to the existing solvency problems (Note 28).

Concentration of receivables as at 31 December 2019 and 2018 was as follows:

	31.12.2019		31.12.2018	
	Receivables	%	Receivables	%
Receivables from direct insurance business				
BP Exploration (Azerbaijan) Limited	266,119	21%	5,250,258	80%
SOCAQ AQS	123,291	10%	371,005	6%
Somitomo Corporation Europe Limited	93,480	7%	-	-
Azerbaijan Koka-Kola Bottlers Ltd MMC	79,020	6%	-	-
Weus Holding LLC Azerbaijan branch	10,694	1%	107,922	2%
US Embassy	-	-	289,164	4%
Others	722,955	56%	558,035	8%
Total receivables from direct insurance business	1,295,559	100%	6,576,384	100%
Total receivables	1,295,559		6,576,384	

The amount of receivables due from a related party, “MediClub” LLC, for both years were null.

9. Reinsurance assets

	31.12.2019	31.12.2018
Reinsurer's share in provision for unearned premiums	1,042,864	708,477
Reinsurer's share in provision for claims	407,000	325,495
Total reinsurance assets	1,449,864	1,033,972

10. Deferred acquisition costs

	2019	2018
Deferred acquisition cost as at 1 January	45,350	44,244
Change in deferred acquisition costs	163,752	1,106
Deferred acquisition costs as at 31 December	209,102	45,350

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11. Property and equipment

Movements in property and equipment for the year ended 31 December 2019 were as follow:

	Buildings	Furniture & fixtures	Computers & equipment	Vehicles	Other	Total
Book value						
31 December 2018	346,850	147,760	107,823	224,411	12,697	839,541
Additions	-	-	16,327	335,961	-	352,288
Disposals	-	-	-	-	-	-
31 December 2019	346,850	147,760	124,150	560,372	12,697	1,191,829
Accumulated depreciation						
31 December 2018	(153,421)	(143,932)	(81,818)	(187,832)	(12,697)	(579,700)
Depreciation charge	(21,925)	(1,460)	(11,112)	(56,524)	-	(91,021)
Eliminated on disposal	-	-	-	-	-	-
31 December 2019	(175,346)	(145,392)	(92,930)	(244,356)	(12,697)	(670,721)
Net book value						
31 December 2018	193,429	3,828	26,005	36,579	-	259,841
31 December 2019	171,504	2,368	31,220	316,016	-	521,108

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

	Buildings	Furniture & fixtures	Computers & equipment	Vehicles	Other	Total
Book value						
31 December 2017	346,850	148,185	105,914	224,411	12,697	839,541
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)	(162,959)	(12,697)	(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)	(187,832)	(12,697)	(579,700)
Net book value						
31 December 2017	215,512	5,816	29,032	61,452	-	311,812
31 December 2018	193,429	3,828	26,005	36,579	-	259,841

The management believes that carrying value of the buildings is approximately the same as its revalued amount as of 31 December 2019 and 2018.

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If the buildings were accounted at historical cost restated according to accumulated depreciation and impairment losses, its carrying value would be 69 thousand manats as at 31 December 2019 and 75 thousand manats as at 31 December 2018. The depreciation charge on revalued buildings during the year 2019 was AZN 6,317 (2018: AZN 6,317).

As per 31 December 2019 and 2018 the financial statements of the Company include fully depreciated property and equipment as listed below:

	31.12.2019	31.12.2018
Vehicles	151,100	128,642
Furniture and fixtures	142,470	140,270
Computers & equipment	82,903	53,792
Other	12,697	12,697
Total fully depreciated property and equipment	389,170	335,401

12. Intangible assets

Movement in intangible assets for the year ended 31 December 2019 and 31 December 2018 were as follows:

	Computer software	License	Total
Book value			
As at 31 December 2017	119,000	5,425	124,425
Additions	-	-	-
As at 31 December 2018	119,000	5,425	124,425
Additions	-	-	-
As at 31 December 2019	119,000	5,425	124,425
Accumulated amortisation			
As at 31 December 2017	(49,491)	(2,378)	(51,869)
Amortisation expenses	(23,800)	(1,085)	(24,885)
As at 31 December 2018	(73,291)	(3,463)	(76,754)
Amortisation expenses	(23,800)	(1,085)	(24,885)
As at 31 December 2019	(97,091)	(4,548)	(101,639)
Net book value			
31 December 2018	45,709	1,962	47,671
31 December 2019	21,909	877	22,786

13. Investment property

Investment property includes the building located in Baku and leased to “MediClub Dental” LLC, a related party. If premises were measured using the cost model, the items of the statement of financial position would be carried at 79 thousand manats as at 31 December 2019 and 87 thousand manats as at 31 December 2018.

The reassessment of the building took place on 15 March 2010 by an independent valuer “Kaneko Group” specifically for preparation of the financial statements.

On 12 May 2018 the Company acquired a building amounting 1 million manats. The Company spent additional 639 thousand manats for overhaul of the premises during 2018-2019. On 1 July the renovated building was leased out to “MediClub” LLC, a related party, for a period of 10 years. Monthly lease payment is AZN 8,000.

For the year ended 31 December 2019 the Company recognised income from operating lease in the amount of AZN 48,000.

The management believes that investment property has been presented at fair value based on its market value as of 31 December 2019 and 2018.

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14. Right-of-use assets

Starting from 28 June 2018 the Company has leases of office premise for the period of 3 year. Having analysed the lease agreement, the Company decided on recognising the lease liability at the date of IFRS 16 initial application of the lease payments at the present value discounted at the rate of raising additional borrowed funds as of IFRS 16 initial application date.

The weighted average rate for raising additional borrowed funds applied by the Company to lease liabilities at the date of the standard initial application is 20.03% (based on Central Bank of Azerbaijan average interest rates on deposits and loans).

IFRS 16 application to a lease previously classified as an operating lease under IAS 17 resulted in recognising the right-of-use asset in amount of AZN 205,831 and lease liabilities in amount of AZN 216,985 on the date of implementation.

During the reporting period, the IFRS 16 application also resulted in a decrease in rental expenses by AZN 114,000 and an increase in depreciation by AZN 85,171 thousand tenge and interest expenses by AZN 36,616.

15. Deferred tax

Income tax expenses comprise the following:

	2019	2018
Current income tax charge	406,281	540,864
Deferred income tax (credit)/charge	(29,756)	22,763
Total income tax charge for the year	376,525	563,627

The current tax rate applicable to the Company's profit is 20% for 2019 and 2018.

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

	2019	2018
Profit before tax	1,831,475	2,804,347
Theoretical tax charge at the applicable statutory rate 20%	366,295	560,870
Non-deductible expenses less non-taxable income	10,230	2,757
Total income tax charge for the year	376,525	563,627

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	Adjusted balance as at 1 January 2019	(Charged)/credited to profit or loss	Balance as at 31 December 2019
Cash and bank accounts	83,252	1,306	84,558
Deposits with banks	(2,818)	(4,400)	(7,218)
Receivables	(163)	7,787	7,624
Reinsurance assets	8,659	(11,891)	(3,232)
Property and equipment	75,684	(17,580)	58,104
Intangible assets	10,336	2,990	13,326
Investment property	(71,420)	-	(71,420)
Right-of-use assets	(41,166)*	17,034	(24,132)
Other assets	5,697	1,254	6,951
Provision for claims	(91,228)	46,681	(44,547)
Lease liabilities	43,397	(15,477)	27,920
Other liabilities	7,779	2,051	9,850
Net tax assets	28,029	29,756	57,785

*Due to IFRS 16 initial application

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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	84,057	(22,763)	25,798

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

16. Other assets

	31.12.2019	31.12.2018
Advances paid	107,781	8,279
Social payments	5,850	1,162
Prepayments on claims	2,926	5,940
Other	5,899	1,853
Total other assets	122,456	17,234

The amount of advances paid due from a related party, “MediClub” LLC, as at 31 December 2019 was 99,511 AZN (2018: nil).

17. Provision for unearned premiums

Below is the analysis of provision for unearned premium for the year ended 31 December 2019:

	31.12.2019		
	Gross	Reinsurer's part	Net
Provision for unearned premiums as at 1 January	8,804,895	(708,477)	8,096,418
Change in provision for unearned premiums	1,170,064	(334,387)	835,677
Provision for unearned premiums as at 31 December	9,974,959	(1,042,864)	8,932,095

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

	31.12.2018		
	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

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18. Provision for claims

Below is the analysis of provision for claims for the year ended 31 December 2019:

	31.12.2019		
	Gross	Reinsurer's part	Net
Provision for unearned premiums as at 1 January	1,158,486	(325,495)	832,991
Change in provision for unearned premiums	368,158	(81,505)	286,653
Provision for unearned premiums as at 31 December	1,526,644	(407,000)	1,119,644

Below is the analysis of provision for claims for the year ended 31 December 2019:

	31.12.2018		
	Gross	Reinsurer's part	Net
Provision for unearned premiums as at 1 January	1,004,874	(192,508)	812,366
Change in provision for unearned premiums	153,612	(132,987)	20,625
Provision for unearned premiums as at 31 December	1,158,486	(325,495)	832,991

Below is the categorisation of provision for claims as at 31 December 2019 and 2018:

	31.12.2019	31.12.2018
Reported but not settled claims	981,503	632,625
Incurred but not reported claims	545,141	525,861
Total provision for claims	1,526,644	1,158,486

19. Payables

	31.12.2019	31.12.2018
Ceded reinsurance premiums payable	202,511	208,388
Claims payable (Note 31)	176,047	157,693
Payable to agents	99,226	18,838
Total payables	477,784	384,919

Claims payable to a related party, “MediClub” LLC as per 31 December 2019 were nil (2018: AZN 73,296).

20. Deferred commission income

	2019	2018
Deferred commission income at 1 January	59,451	52,623
Change in deferred commission income for the period	19,803	6,828
Deferred commission income at 31 December	79,254	59,451

21. Other liabilities

	31.12.2019	31.12.2018
Payable to insurer regulator	63,289	18,689
Provision for unused leaves	49,249	38,992
Advances received	75,645	138,111
Total payables	188,183	195,792

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22. Share capital and revaluation reserve

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

	31.12.2019	31.12.2018
Number of shares	7,750	7,750
Par value	1,291	1,291
Share capital	10,005,250	10,005,250

Earnings per share (basic and diluted) for 2019 and 2018 were calculated as follows:

	2019	2018
Net profit for the year	1,454,950	2,240,720
Weighted average number of ordinary shares for basic earnings per share	7,750	7,750
Earnings per share	187.74	213.50

During 2019 the Company paid dividends to shareholders for the results of 2018 in total amount of AZN 2,107,598 (Note 32).

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

	2019	2018
Revaluation reserve as at 1 January	66,820	71,874
Depreciation charge utilisation	(6,317)	(6,317)
Deferred tax liabilities utilisation	1,263	1,263
Revaluation reserve as at 31 December	61,766	66,820

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23. 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 2019:

	Insurance from fire	Vehicle insurance	Liability insurance	Travel insurance	Medical insurance	Other insurance	Total
Gross written premiums (Note 31)	497,160	1,145,397	200,624	60,832	12,816,432	91,530	14,811,975
Premiums ceded to reinsurers	(270,867)	(796,616)	(142,153)	(25,781)	(520,850)	(56,383)	(1,812,650)
Net written premiums	226,293	348,781	58,471	35,051	12,295,582	35,147	12,999,325
Change in provision for unearned premiums, net of reinsurance (Note 17)	(207,618)	(165,603)	(19,634)	(4,071)	(432,065)	(6,686)	(835,677)
Premiums earned, net of reinsurance	18,675	183,178	38,837	30,980	11,863,517	28,461	12,163,648
Claims paid (Note 31)	(10,557)	(337,834)	-	(28,700)	(8,160,304)	(547)	(8,537,942)
Claims ceded to reinsurers	609	244,492	-	14,519	139,509	-	399,129
Net payments	(9,948)	(93,342)	-	(14,181)	(8,020,795)	(547)	(8,138,813)
Change in provision for claims, net of reinsurance (Note 17)	(4,758)	(2,168)	(755)	37,051	(322,175)	6,152	(286,653)
Net claims paid	(14,706)	(95,510)	(755)	22,870	(8,342,970)	(5,605)	(8,425,466)

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

	Insurance from fire	Vehicle insurance	Liability insurance	Travel insurance	Medical insurance	Other insurance	Total
Gross written premiums (Note 31)	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	11,663,918	6,574	11,880,854
Change in provision for unearned premiums, net of reinsurance (Note 17)	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 31)	(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 18)	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)

Concentration of gross premiums written by customers was as follows:

	2019		2018	
	Gross written premiums	Percentage of total	Gross written premiums	Percentage of total
BP Exploration (Caspian Sea) Limited	5,420,658	36.60%	5,408,649	41.80%
Azercell Telecom	1,531,411	10.34%	1,439,661	11.13%
Azerbaycan Beynəlxalq Bankı	571,231	3.86%	475,450	3.67%
SOCAR	385,240	2.60%	477,656	3.69%
Vud Qrup PSN Azerbaycan	214,281	1.45%	-	-
Azerbaycan Koka-Kola Bottlers Ltd	161,184	1.09%	-	-
US Embassy	31,813	0.21%	284,116	2.20%
Others (Note 31)	6,639,168	43.86%	4,854,195	37.51%
Total	14,811,975	100%	12,939,727	100%

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24. Net acquisition cost

	2019	2018
Fee and commission income	311,628	174,817
Fee and commission expense	(507,119)	(120,131)
Change in deferred acquisition costs	163,752	1,106
Change in deferred commission income	(19,803)	(6,828)
Net acquisition gains/(costs)	(51,542)	48,964

25. Operating expenses

	2019	2018
Salary and bonuses	1,300,643	1,113,746
Bank commissions	128,436	80,059
Taxes other than income tax	128,071	72,546
Depreciation charge and amortisation expenses	115,906	88,001
Depreciation of right-of-use assets	85,171	-
Vehicle expenses	62,007	49,100
Professional services	61,051	80,016
Communication expenses	27,713	18,976
Advertising expenses	23,517	18,448
Printing and office supplies	18,305	16,396
Regress Expenses	1,237	5,364
Business trips	23	9,892
Rent expense	-	114,000
Other operating expenses	182,973	192,366
Total operating expenses	2,135,053	1,858,910

26. Interest income, net

Interest income amounted AZN 260,819 and AZN 199,903 in 2019 and 2018 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 2019 comprises of nil (2018: AZN 20,074).

Interest expense related to lease agreement was accrued in amount AZN 36,616 during the year 2019.

27. Other income

	2019	2018
Rent income (Note 31)	80,400	32,400
Other	-	42,067
Total other income	80,400	74,467

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28. 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 comprehensiveness 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.

	2019	2018
Cash and bank accounts	9,190,503	6,563,578
Deposit with banks	8,836,089	6,758,840
Receivables	1,295,559	6,576,384
Reinsurance assets	1,449,864	1,003,972
Total financial assets	20,772,015	20,932,774
Payables	(477,784)	(384,919)
Lease liabilities	(139,601)	-
Other liabilities	(63,289)	(18,689)
Total financial liabilities	(680,674)	(403,608)

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Ageing analysis of not impaired and impaired financial assets as at 31 December 2019:

	Impaired financial assets					Total
	Not impaired	Less than 1 month overdue	From 1 to 6 months overdue	From 6 to 12 months overdue	From 1 to 5 years overdue	
Cash and bank accounts	9,190,503	-	-	-	417,073	9,190,503
Deposits with banks	8,836,089	-	-	-	-	8,836,089
Receivables	1,295,559	-	-	38,119	-	1,259,559
Reinsurance assets	1,449,864	-	-	-	-	1,449,864
Total financial assets	20,772,015	-	-	38,119	417,073	20,772,015

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

	Impaired financial assets					Total
	Not impaired	Less than 1 month overdue	From 1 to 6 months overdue	From 6 to 12 months overdue	From 1 to 5 years overdue	
Cash and bank accounts	6,563,578	-	-	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	-	20,932,774

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

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

Geographical risk. All receivables from reinsurance business as at 31 December 2019 and 2018 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 fluctuation arise. Exchange exposure 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 2019:

	AZN	USD	Total
Assets			
Cash and cash equivalents	2,735,543	6,454,960	9,190,503
Deposits with banks	2,036,089	6,800,000	8,836,089
Receivables	1,140,368	155,191	1,295,559
Reinsurance assets	1,449,864	-	1,449,864
Total financial assets	7,361,864	13,410,151	20,772,015
Liabilities			
Payables	(423,170)	(54,614)	(477,784)
Lease liabilities	(139,601)	-	(139,601)
Other liabilities	(63,289)	-	(63,289)
Total financial liabilities	(626,060)	(54,614)	(680,674)
Net balance sheet position	6,735,804	13,355,537	20,091,341

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 cash equivalents	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			
Payables	(384,919)	-	(384,919)
Other liabilities	(18,689)	-	(18,689)
Total financial liabilities	(403,788)	-	(403,788)
Net balance sheet position	9,613,254	10,915,732	20,528,986

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

The table below shows the change in the financial result and comprehensive income due to possible fluctuations of exchange rates used as at the reporting date if all other conditions remain unchanged.

Reasonably expected exchange rate changes for each currency were projected on the basis of maximal exchange rate fluctuations in December 2019 and 2018.

	2019		2018	
	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% (2018: 4%)	534,221	427,377	436,557	349,249
USD depreciation by 4% (2018: 4%)	(534,221)	(427,377)	(436,557)	(349,249)

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 financial liabilities as at 31 December 2019:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Payables	477,784	-	-	-	477,784
Lease liabilities	7,170	29,895	57,325	45,211	139,601
Other liabilities	63,289	-	-	-	63,289
Total liabilities	548,243	29,895	57,325	45,211	680,674

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The table below shows the maturity analysis of 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
Payables	384,919	-	-	-	384,919
Other liabilities	18,689	-	-	-	18,689
Total liabilities	403,608	-	-	-	403,608

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 9% (Note 24).

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

The Company controls underwriting risks through:

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

29. Capital management

The Company's capital management has the following objectives:

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

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

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 maintained 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 2019 and 2018.

30. 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 judgement 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 difference 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 audit 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 taxpayer has obstructed or hindered a tax inspection.

As at 31 December 2019, the management of the Company 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.

31. 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. Insurance receivables 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 receivables 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.

32. 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.

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The outstanding balances at the year end and asset transactions with related parties as of 31 December 2019 and 2018 were as follows:

	2019		2018	
	Related party transactions	Total category	Related party transactions	Total category
Cash and banks accounts		9,190,503		6,563,578
– <i>Member of supervisory board of directors with significant influence over a Company</i>	5,715		4,654	
Advances paid		107,781		8,279
– <i>companies controlled by the shareholder</i>	99,511		-	
Claims payable		(176,047)		(157,693)
– <i>companies controlled by the shareholder</i>	-		(73,296)	
Gross written premiums		14,811,975		12,939,727
– <i>companies controlled by the shareholder</i>	68,743		65,875	
Claims paid		(8,537,942)		(8,064,436)
– <i>companies controlled by the shareholder</i>	(3,096,825)		(2,730,592)	
Operating expenses		(2,135,053)		(1,858,910)
– <i>key management personnel</i>	(127,218)		(204,394)	
– <i>companies controlled by the shareholder</i>	(10,494)		(5,564)	
Interest income		260,819		199,903
– <i>Member of supervisory board of directors with significant influence over a Company</i>	-		20,074	
Other income/(loss)		80,400		74,467
– <i>companies controlled by the shareholder</i>	80,400		32,400	

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

33. Subsequent events

In early 2020, the global market was faced with uncertainty caused by the outbreak of coronavirus infection. Since March 2020, in connection with the coronavirus (COVID-19) pandemic, the Government of the Republic of Azerbaijan introduced quarantine measures which had significant impact on the level and scale of business activity of market. It is expected that both the pandemic itself and measures to minimise its consequences can affect the operations of companies from various industries.

The Company's management considers this pandemic as a non-adjustment event and is unable to predict how long this situation will continue and is following the previously adopted strategy of the Company. Currently, the Company's management has introduced a number of measures to ensure the safety and well-being of its employees and clients.

On 24 February 2020 the Company declared dividends for the year ended 31 December 2019 in the amount of AZN 1,560,499 for profit earned during the year 2019.