

**SHEBEKE INSURANCE BROKER LLC**  
**REPORT OF INDEPENDENT AUDITORS**  
**AND**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2018**

**SHEBEKE INSURANCE BROKER LLC**

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## Independent auditor's report

To the Stakeholder of "Shebeke Insurance Broker" LLC

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of "Shebeke Insurance Broker" LLC ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, the statement of changes in equity and the 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 give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standard.

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

#### *Management's responsibility for the financial statements*

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or 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 is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

*MOORE AZERBAIJAN*

13 September 2019

Baku, Republic of Azerbaijan

**SHEBEKE INSURANCE BROKER LLC**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2018**  
**(Expressed in Azerbaijani manats)**

	Note	2018	2017
<b>Assets</b>			
<b>Non-current assets</b>			
Equipment	5	1,788	1,089
Intangible assets	5	68,329	75,921
<b>Total non-current assets</b>		<b>70,117</b>	<b>77,010</b>
<b>Current assets</b>			
Cash and cash equivalents	6	9,806	188,392
Trade and other receivables	7	156,464	5,100
Other assets	8	22,500	-
<b>Total current assets</b>		<b>188,770</b>	<b>193,492</b>
<b>Total assets</b>		<b>258,887</b>	<b>270,502</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Charter capital	9	20	20
Retained earnings		19,530	144,618
<b>Total Equity</b>		<b>19,550</b>	<b>144,638</b>
<b>Current liabilities</b>			
Trade and other payables	10	124,609	21,800
Payable to shareholders	12	103,000	103,000
Other liabilities	11	11,728	1,064
<b>Total current liabilities</b>		<b>239,337</b>	<b>125,864</b>
<b>Total liabilities</b>		<b>239,337</b>	<b>125,864</b>
<b>Total equity and liabilities</b>		<b>258,887</b>	<b>270,502</b>



Baku, Republic of Azerbaijan  
13 September 2019

The notes set out on pages 9-19 form an integral part of these financial statements

**SHEBEKE INSURANCE BROKER LLC**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**  
(Expressed in Azerbaijani manats)

	Note	2018	2017
Sales	13	805,318	1,339,106
Cost of sales	14	(516,697)	(931,000)
<b>Gross profit</b>		<b>286,621</b>	<b>408,106</b>
General and administrative expenses	15	(266,248)	(264,589)
<b>Operating profit</b>		<b>22,373</b>	<b>143,517</b>
Foreign exchange (loss)/gain		(1,476)	(14,986)
<b>Profit/(loss) before income tax</b>		<b>20,897</b>	<b>128,531</b>
Profit tax (expense)/benefit		(6,985)	(26,859)
<b>Net profit/(loss) for the year</b>		<b>13,912</b>	<b>101,672</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income/(loss)</b>		<b>13,912</b>	<b>101,672</b>



Baku, Republic of Azerbaijan  
13 September 2019

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**SHEBEKE INSURANCE BROKER LLC**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**  
**(Expressed in Azerbaijani manats)**

	<u>Charter Capital</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
<b>Balance as at 01 January 2017</b>	<b>20</b>	<b>42,946</b>	<b>42,966</b>
Profit for the year	-	101,672	<b>101,672</b>
Other comprehensive income for the year	-	-	-
<b>Balance as at 31 December 2017</b>	<b>20</b>	<b>144,618</b>	<b>144,638</b>
Profit for the year	-	13,912	<b>13,912</b>
Other comprehensive income for the year	-	-	-
Dividend payment	-	(139,000)	<b>(139,000)</b>
<b>Balance as at 31 December 2018</b>	<b>20</b>	<b>19,530</b>	<b>19,550</b>



Zemfira Nasirova  
 Director

Baku, Republic of Azerbaijan  
 13 September 2019

**SHEBEKE INSURANCE BROKER LLC**  
**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**  
**(Expressed in Azerbaijani manats)**

	Note	2018	2017
<b>Cash flows from operating activities</b>			
Profit/(Loss) before income tax		20,897	128,531
Adjustments for:			
Depreciation of equipment	5	359	232
Amortisation of intangible assets		7,592	8,262
Foreign exchange loss		1,476	14,986
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>30,324</b>	<b>152,011</b>
(Increase)/decrease in operating assets:			
Increase in trade and other receivables		(151,364)	(5,100)
Increase/decrease in other assets		(22,500)	2,123
Increase/(decrease) in operating liabilities:			
Increase in trade and other payables		102,809	21,800
Increase/decrease in other liabilities		10,664	(6,574)
<b>Cash (used in)/ from operating activities before income tax</b>		<b>(30,067)</b>	<b>164,260</b>
Income taxes paid	16	(6,985)	(26,859)
<b>Net cash from operating activities</b>		<b>(37,052)</b>	<b>137,401</b>
<b>Cash flows from investing activities</b>			
Acquisition of equipment		(1,058)	-
Acquisition of intangible assets		-	-
<b>Net cash used in investing activities</b>		<b>(1,058)</b>	<b>-</b>
<b>Cash flows from financial activities</b>			
Proceeds from borrowed funds		-	-
Payment of dividends		(139,000)	-
<b>Net cash (used in)/ from financial activities</b>		<b>(139,000)</b>	<b>-</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(1,476)</b>	<b>(14,986)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(178,586)</b>	<b>122,415</b>
<b>Cash and cash equivalents at the beginning of the year</b>	6	<b>188,392</b>	<b>65,977</b>
<b>Cash and cash equivalents at the end of the year</b>	6	<b>9,806</b>	<b>188,392</b>



Zemfira Nasirova  
 Director

Baku, Republic of Azerbaijan  
 13 September 2019

The notes set out on pages 9-19 form an integral part of these financial statements



**SHEBEKE INSURANCE BROKER LLC**  
**NOTES ON FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**  
**(Expressed in Azerbaijani manats)**

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**1 BACKGROUND**

"Shebeke Insurance Broker" LLC (the "Company") was founded on 21 January 2013 and domiciled in the Republic of Azerbaijan. The Company is a limited liability company and was set up in accordance with Azerbaijani regulations. The Company was initially registered under the registration number 1402419721 dated 21 January 2013 at the Ministry of Taxes of the Republic of Azerbaijan.

The Company's principal business activity is providing intermediary support between insurance companies and their customers in arrangement of insurance policies. The Company acts as intermediary in various types of insurance arrangements such as property, equipment, carriage, vehicle, auto, workforce related risks, agriculture and other.

The Company's address is: Asef Zeynalli str. 31/33, Baku, Republic of Azerbaijan. The Company was initially established by two shareholders, both individual persons. In 2017 the ownership was fully transferred to one of the initial shareholders. As at 31 December 2018 the following shareholders owned the share capital of the Company:

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>Ownership interest, %</b>	<b>Ownership interest, %</b>
Rahimova Ulviyya (Individual person)	100	-
Kommunar Huseynov(Individual person)	-	100
<b>Total</b>	<b>100</b>	<b>100</b>

**Operating Environment**

The Company's business activities are substantially influenced by the economic, political and regulatory environment of the Republic of Azerbaijan and international agreements. The general risks to businesses include the possibility for rapid change in government policies, economic conditions, the tax regime and foreign currency regulations and include the substantial use of cash in setting business transactions. Management believes that it has adequacy provided for tax liabilities based on its interpretation of the tax legislation applicable. Management believes that they are taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES**

**The common basis of preparation of financial statements**

The Company maintains its primary accounting records in accordance with the regulations of the Republic of Azerbaijan. These financial statements have been prepared from the Company's primary accounting records, and adjusted as necessary in order to conform in all material respects with the International Financial Reporting Standards.

These financial statements are prepared under the historical cost convention and on the assumption that the Company will continue to operate as a going concern

These financial statements cover the year ended 31 December 2018. Comparative information covers the year ended 31 December 2017.

**Foreign currency exchange**

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

**SHEBEKE INSURANCE BROKER LLC**  
**NOTES ON FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**  
**(Expressed in Azerbaijani manats)**

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**

*Foreign currency exchange (continued)*

At 31 December 2018 and 31 December 2017, the official exchange rates of the Azerbaijan Manats related to EUR and USD and set by the Central Bank of the Republic of Azerbaijan were as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
1 EUR to AZN	1.9468	2.0307
1 USD to AZN	1.7000	1.7001

***Changes in accounting policies***

The Company applied IFRS 9 Financial Instruments for the first time. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Company did not restate the comparative information in the scope of IFRS 9.

***Classification and measurement***

Under IFRS 9, all financial assets are classified at initial recognition as fair value through other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL).

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the assets that are managed on a “hold to collect” basis; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in FVOCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

***Impairment***

The Company recognizes allowance for impairment for expected losses (ECL) on financial assets measured at amortized cost and commitments issued. The Company measures allowance for impairment at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition, in which case 12-month ECL is measured.

***Equipment***

Equipment is stated at cost, less accumulated depreciation and provision for impairment. Cost comprises of construction cost or purchase price, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the construction cost or purchase price.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.



## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

### *Equipment (continued)*

All items of equipment are stated at cost less accumulated depreciation and impairment losses, if any at each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If impaired, assets are written down to the higher of their value in use.

And fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. 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 value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

### **Depreciation**

Depreciation on items of equipment is calculated using the straight line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Computers and equipment	5

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 residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Technological advances may have a significant impact on the activities of the Company. These changes may lead to the replacement of major items of equipment by new technology, which provide the same or superior service capacity at substantially lower costs. In reviewing the remaining useful life, for the purposes of these financial statements, management takes into account these circumstances and the environment in which the Company operates.

### *Intangible assets*

The Company's intangible assets have definite useful lives and primarily include capitalised computer software and licenses.

Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

### **Amortisation**

Amortisation is charged to profit or loss on straight line basis over the estimated useful lives of intangible assets.

	Useful lives in years
License and software	10

### *Cash and cash equivalents*

Cash and cash equivalents are items, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents in the statement of financial position comprise current account balances with banks and are initially and subsequently recorded at fair value.

For purpose of the statement of cash flows, balances with banks and cash on hand are considered to be cash equivalents.

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

### *Financial instruments*

#### *Recognition, initial measurement and derecognition*

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expired.

Financial assets and financial liabilities are measured subsequently as described below.

#### *Classification and subsequent measurement of financial assets*

For the purpose of subsequent measurement, financial assets are classified into loans and receivables upon initial recognition and are measured at amortised cost.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or the Company of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within 'finance costs' or 'other income - net', except for impairment of trade receivables which is presented within 'administrative and general expenses'

#### *Impairment and collectability of financial assets*

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the income statement. Impairment for assets carried at cost is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

#### *Classification and subsequent measurement of financial liabilities*

Financial liabilities comprise trade and most other payables. Financial liabilities are measured subsequently at amortised cost using the effective interest method. All interest-related charges are included within 'finance costs'.

#### *Offsetting financial instruments*

Financial assets and liabilities are offset, and the net amount 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 settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### *Short-term employee benefits*

The cost of short-term employee benefit (those payable within twelve months after the service is rendered) are recognized in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognized as an expense when the employee renders services that increase their entitlement or, in the case of non-accumulating absences, when the absences occur.

#### *Provisions and contingent liabilities*

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.



## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

### *Provisions and contingent liabilities (continued)*

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material. Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination.

### *Revenue*

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for goods and materials supplied or services provided excluding rebates and trade discounts.

The Company applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction in order to reflect the substance of the transaction.

The consideration received from these transactions is allocated to the separately identifiable component by taking into account the relative fair value of each component.

Revenue is recognised when the amount of revenue can be measured reliably, collection is probable, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Company's different activities have been met. These activity-specific recognition criteria are described below.

### *Rendering of services*

Revenue from the rendering of services is recognised when the revenue can be measured reliably, collection is probable, the cost incurred or to be incurred can be measured reliably. Service fee and all other income are recognised as income on an earned basis, which equates to when services are delivered.

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

When preparing the Financial Statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The following are significant management judgements in applying the accounting policies of the Company that have the most significant effect on the Financial Statements.

### *Recognition of deferred tax assets*

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Company's future taxable income against which the deductible temporary differences can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

### *Estimation uncertainty*

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may substantially differ.

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)**

**Impairment of non-financial assets**

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets within the next financial year. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

**Useful lives of depreciable assets**

Management reviews the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets to the Company. The carrying amounts are analysed in note 5. Actual results, however, may vary due to technical obsolescence, particularly relating to computers and office equipment.

**4. STANDARDS, INTERPRETATIONS AND AMENDMENTS**

At the date of authorisation of these Financial Statements, the following relevant new standards, interpretations and amendments to existing standards have been published but are not yet effective and have not been adopted early by the Company.

Standard number	Title	Effective date
IFRS 16	Leases	1 January 2019

**IFRS 16 Leases - New (effective for accounting period beginning on or after 1 January 2019)**

IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. Management has yet to assess the impact of this revised standard on the Company's financial statements.

**5 EQUIPMENT AND INTANGIBLE ASSETS**

	Equipment	Intangible assets	Total
<b>Opening carrying amount at 1 January 2017</b>	<b>1,321</b>	<b>84,183</b>	<b>85,504</b>
Additions	-	-	-
Depreciation/amortisation charge	(232)	(8,262)	(8,494)
<b>Carrying amount at 31 December 2017</b>	<b>1,089</b>	<b>75,921</b>	<b>77,010</b>
Additions	1,058	-	1,058
Depreciation/amortisation charge	(359)	(7,592)	(7,951)
<b>Carrying amount at 31 December 2018</b>	<b>1,788</b>	<b>68,329</b>	<b>70,117</b>
<b>Cost at 31 December 2017</b>	<b>1,452</b>	<b>94,000</b>	<b>95,452</b>
Accumulated depreciation/amortisation	(363)	(18,079)	(18,442)
<b>Carrying amount at 31 December 2017</b>	<b>1,089</b>	<b>75,921</b>	<b>77,010</b>
<b>Cost at 31 December 2018</b>	<b>2,510</b>	<b>94,000</b>	<b>96,510</b>
Accumulated depreciation/amortisation	(722)	(25,671)	(26,393)
<b>Carrying amount at 31 December 2018</b>	<b>1,788</b>	<b>68,329</b>	<b>70,117</b>



SHEBEKE INSURANCE BROKER LLC  
NOTES ON FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2018  
(Expressed in Azerbaijani manats)

**6 CASH AND CASH EQUIVALENTS**

	<u>2018</u>	<u>2017</u>
Cash on hand	7	10,007
Cash at banks	9,191	178,385
Bank debit card	608	-
<b>Total cash and cash equivalents</b>	<b><u>9,806</u></b>	<b><u>188,392</u></b>

**7 TRADE AND OTHER RECEIVABLES**

	<u>2018</u>	<u>2017</u>
Reinsurance contract transfers	120,953	5,100
Claims and call off contracts	19,228	-
Income tax receivable	14,031	-
Other	2,252	-
<b>Total trade and other receivables</b>	<b><u>156,464</u></b>	<b><u>5,100</u></b>

**8 OTHER ASSETS**

	<u>2018</u>	<u>2017</u>
Receivable from related parties	22,500	-
<b>Total other assets</b>	<b><u>22,500</u></b>	<b><u>-</u></b>

**9 CHARTER CAPITAL**

	<u>2018</u>	<u>2017</u>
Rahimova Ulviyya (Individual person)	20	-
Kommunar Huseynov (Individual person)	-	20
<b>Total share capital</b>	<b><u>20</u></b>	<b><u>20</u></b>

**10 TRADE AND OTHER PAYABLES**

	<u>2018</u>	<u>2017</u>
Reinsurance contract transfers	104,907	4,543
Claims and call off contracts	19,228	-
Other	474	17,257
<b>Total trade and other payables</b>	<b><u>124,609</u></b>	<b><u>21,800</u></b>

**11 OTHER LIABILITIES**

	<u>2018</u>	<u>2017</u>
Payables to employees	8,009	-
Other	3,719	-
Deferred revenue	-	1,064
<b>Total other liabilities</b>	<b><u>11,728</u></b>	<b><u>1,064</u></b>

**12 PAYABLE TO SHAREHOLDERS**

	<u>2018</u>	<u>2017</u>
Payables to shareholders	103,000	103,000
<b>Total payable to shareholders</b>	<b><u>103,000</u></b>	<b><u>103,000</u></b>

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**13 SALES**

	<u>2018</u>	<u>2017</u>
Revenue from reinsurance contracts	681,217	1,229,673
Revenue from insurance policies	87,066	70,856
Other services	37,035	38,577
<b>Total revenue</b>	<b><u>805,318</u></b>	<b><u>1,339,106</u></b>

**14 COST OF SALES**

	<u>2018</u>	<u>2017</u>
Cost of reinsurance arrangements	516,697	931,000
<b>Total cost of sales</b>	<b><u>516,697</u></b>	<b><u>931,000</u></b>

**15 GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2018</u>	<u>2017</u>
Staff costs	94,631	71,481
Consulting expenses	68,863	60,990
Business trip	21,934	10,772
Rent expenses	16,744	7,628
Insurance expenses	16,257	135
Amortisation of intangible assets	7,592	8,262
Bank charges	6,551	9,780
Transportation costs	2,870	429
Communication expenses	2,009	878
Office expenses	1,634	1,711
Marketing expenses	602	16,000
Depreciation of equipment	359	232
Repair and maintenance	-	4,150
Taxes other than income tax	-	32,113
Training expenses	-	19,090
Other expenses	26,202	20,938
<b>Total general and administrative expenses</b>	<b><u>266,248</u></b>	<b><u>264,589</u></b>

**16 TAXATION**

*Profit tax*

	<u>2018</u>	<u>2017</u>
Current tax	6,985	26,859
Deferred tax	-	-
<b>Total profit taxes</b>	<b><u>6,985</u></b>	<b><u>26,859</u></b>

Profit before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

	<u>2018</u>	<u>2017</u>
Profit before profit tax	20,897	128,531
Theoretical income tax at statutory rate (20%)	4,179	25,706
<i>Tax effect of items which are not deductible or assessable for taxation purposes:</i>		
Tax effect of permanent differences	2,806	1,153
Non-deductible expenses	-	-
<b>Profit tax expenses</b>	<b><u>6,985</u></b>	<b><u>26,859</u></b>



## 16 TAXATION (CONTINUED)

Differences between the recognition criteria in Azerbaijan statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the applicable statutory rates including the prevailing rate of 20 % in Azerbaijan.

The management estimates that the deferred tax assets/liabilities resulting of losses or gains will not be recovered; therefore no deferred tax has been recorded in the accounting books for the year ended 31 December 2018.

## 17 FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Azerbaijan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

### *Financial assets carried at amortised cost*

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade and other receivables, due from related parties, investments held to maturity approximate fair values.

### *Financial liabilities carried at amortised cost*

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of trade and other payables and due to related parties approximate fair values.

## 18 COMMITMENTS AND CONTINGENCIES

### *Legal proceedings*

On the basis of its own estimates and internal professional advice the Company's management is of the opinion that no material losses will be incurred in respect of claims and, accordingly, no provision or disclosure has been made in these financial statements.

### *Tax legislation*

Azerbaijani tax, currency and customs legislations are subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities.

The Azerbaijani tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. In Azerbaijan fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2018 (31 December 2017: Nil) no provisions for potential tax liabilities were recorded.

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**18 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

In accordance with Article 18 of the Tax Code of the Republic of Azerbaijan effective from 1 January 2002, tax authorities can make transfer-pricing adjustments and impose additional tax liabilities in respect of transactions between inter-related entities, which are carried out at non-market prices, and all transactions, where the price differs from the market price by more than 30%.

**Capital expenditure commitments**

The Company has no outstanding commitments as of 31 December 2018 (31 December 2017: Nil).

**19 BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2018, the outstanding balances with related parties were as follows:

	<u>Shareholders</u>
Trade and other payables	<u>103,000</u>

At 31 December 2017, the outstanding balances with related parties were as follows:

	<u>Shareholders</u>
Trade and other payables	<u>103,000</u>

**Directors' compensation**

Compensation paid to director for their services in full time executive management positions is made up of a contractual salary, performance bonus depending on financial performance of the Company and other compensation. The total directors' compensation amounted to AZN 16,542 for year ended 31 December 2018 and AZN 11,360.79 for the year ended 31 December 2017 includes AZN 500 and AZN 304 of social taxes that was accrued and paid by the Company to the Social Protection Fund of the Azerbaijan Republic respectively. Key management personnel included 1 person in 2018 and 2017.

**20 FINANCIAL RISK MANAGEMENT**

The main activities of the Company expose it to diverse financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise any potential adverse effects on the Company's financial performance.

Risk management is carried out by the Company's management in close cooperation with all operating units. The management takes all necessary steps to reduce exposure to these risks to a minimum acceptable level.

To reinforce, the major risks that the Company is exposed to are the currency risk, market risk (foreign exchange risk), credit (debtors) risk and liquidity risk.



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**20 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Credit risk**

Credit risk is the risk that a counter party fails to discharge an obligation to the Company. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, summarised as follows:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	6	9,806	188,392
Trade and other receivables	7	156,464	5,100
Other assets	8	22,500	-
<b>Total carrying amount</b>		<b><u>188,770</u></b>	<b><u>193,492</u></b>

In respect of receivables from customers, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties that share similar characteristics.

The Company did not exceed any credit limits during the reporting period, and the management does not expect to incur any losses resulting from non-performance by these counterparties.

**(b) Currency risk**

As for the currency risk, the management sets limits on the level of total risk exposure, both by currency and in total. The associated risk positions are constantly monitored.

**(c) Liquidity risk**

Liquidity risk reflects an inability of the Company in raising funds to meet its commitments. The Company follows the effective cash management and planning policies to ensure the availability of funds and in order to take appropriate measures to satisfy new requirements.

**21 CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital that the Company managed as of 31 December 2018 was AZN 19,550 and 31 December 2017 was AZN 144,638.

**22 POST BALANCE SHEET EVENTS**

There were not any adjusting or significant non-adjusting events occurred between the reporting date and the date of authorisation of these financial statements.