

SHEBEKE INSURANCE BROKER LLC
REPORT OF INDEPENDENT AUDITORS
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2019

SHEBEKE INSURANCE BROKER LLC

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Independent Auditor's Report

To the Stakeholders 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 2019, the statement of profit and loss and other 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 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards

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 for Small and Medium-sized Entities, 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

1 June 2020

Baku, Republic of Azerbaijan



SHEBEKE INSURANCE BROKER LLC
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(Expressed in Azerbaijani manats)

	Note	2019	2018
Assets			
Non-current assets			
Equipment	5	1,480	1,788
Intangible assets	5	61,637	68,329
Total non-current assets		63,117	70,117
Current assets			
Cash and cash equivalents	6	23,218	9,806
Trade and other receivables	7	58,634	156,464
Other assets	8	-	22,500
Total current assets		81,852	188,770
Total assets		144,969	258,887
Equity and liabilities			
Equity			
Charter capital	9	20	20
Retained earnings		9,899	19,530
Total Equity		9,919	19,550
Current liabilities			
Trade and other payables	10	22,435	124,609
Payable to shareholders	11	104,200	103,000
Other liabilities	12	6,584	11,728
Deferred tax liability	16	1,831	-
Total current liabilities		135,050	239,337
Total liabilities		135,050	239,337
Total equity and liabilities		144,969	258,887


 Zemfira Nasirova
 Director




Baku, Republic of Azerbaijan
 1 June 2020

The notes set out on pages 9-21 form an integral part of these financial statements

SHEBEKE INSURANCE BROKER LLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(Expressed in Azerbaijani manats)

	Note	2019	2018
Sales	13	400,981	805,318
Cost of sales	14	(219,266)	(516,697)
Gross profit		181,715	288,621
General and administrative expenses	15	(189,873)	(266,248)
Operating (loss)/profit		(8,158)	22,373
Foreign exchange gain/(loss)		358	(1,476)
(Loss)/profit before income tax		(7,800)	20,897
Profit tax expense	16	(1,831)	(6,985)
Net (loss)/ profit for the year		(9,631)	13,912
Other comprehensive income for the year		-	-
Total comprehensive (loss)/ income		(9,631)	13,912


Zemfira Nasirova
Director




Baku, Republic of Azerbaijan
1 June 2020

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SHEBEKE INSURANCE BROKER LLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(Expressed in Azerbaijani manats)

	<u>Charter Capital</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Balance as at 31 December 2017	20	144,618	144,638
Profit for the year	-	13,912	13,912
Other comprehensive income for the year	-	-	-
Dividend payment	-	(139,000)	(139,000)
Balance as at 31 December 2018	20	19,530	19,550
Loss for the year	-	(9,631)	(9,631)
Other comprehensive income for the year	-	-	-
Balance as at 31 December 2019	20	9,899	9,919


 Zemfira Nasirova
 Director



Baku, Republic of Azerbaijan
 1 June 2020

The notes set out on pages 9-21 form an integral part of these financial statements

SHEBEKE INSURANCE BROKER LLC
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2019
(Expressed in Azerbaijani manats)

	Note	2019	2018
Cash flows from operating activities			
(Loss)/Profit before income tax		(7,800)	20,897
Adjustments for:			
Depreciation of equipment	5	308	359
Amortisation of intangible assets		6,692	7,592
Foreign exchange (gain)/loss		(358)	1,476
Cash flows from operating activities before changes in operating assets and liabilities		(1,158)	30,324
Changes in operating assets:			
Decrease/(Increase) in trade and other receivables		109,649	(151,364)
Decrease/ (Increase) in other assets		22,500	(22,500)
Changes in operating liabilities:			
(Decrease)/Increase in trade and other payables		(102,174)	102,809
(Decrease)/Increase in other liabilities		(5,144)	10,664
Cash (used in)/ from operating activities before income tax		23,673	(30,067)
Income taxes paid	16	(11,220)	(6,985)
Net cash from operating activities		12,453	(37,052)
Cash flows from investing activities			
Acquisition of equipment		-	(1,058)
Net cash used in investing activities		-	(1,058)
Cash flows from financial activities			
Due to Related Party		1,200	-
Payment of dividends		-	(139,000)
Net cash from /(used in) financial activities		1,200	(139,000)
Effect of exchange rate changes on cash and cash equivalents		(241)	(1,476)
Net increase/(decrease) in cash and cash equivalents		13,412	(178,586)
Cash and cash equivalents at the beginning of the year	6	9,806	188,392
Cash and cash equivalents at the end of the year	6	23,218	9,806


 Zemfira Nasirova
 Director



Baku, Republic of Azerbaijan
 1 June 2020

SHEBEKE INSURANCE BROKER LLC
NOTES ON FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(Expressed in Azerbaijani manats)

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. As at 31 December 2019 the following shareholders owned the share capital of the Company:

	<u>31 December 2019</u> Ownership interest, %	<u>31 December 2018</u> Ownership interest, %
Huseynov Kommunar (Individual person)	40	-
Muradova Leyla (Individual person)	40	-
Huseynova Irada (Individual person)	20	-
Rahimova Ulviyya (Individual person)	-	100
Total	<u>100</u>	<u>100</u>

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 2019. Comparative information covers the year ended 31 December 2018.

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 2019
(Expressed in Azerbaijani manats)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Foreign currency exchange(continued)

At 31 December 2019 and 31 December 2018, 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 2019</u>	<u>31 December 2018</u>
1 EUR to AZN	1.9035	1.9468
1 USD to AZN	1.7000	1.7000

Changes in accounting policies

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2019. 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

Equipments are 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 equipments items are capitalised and the replaced part is retired.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Equipment (continued)

All items of equipments 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 equipments. 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 equipments 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.

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 Fund 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 a Fund 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 Fund 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 Fund 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 Fund'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.

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 Fund's assets within the next financial year.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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 Fund. 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

Following relevant new standards, revisions and amendments to existing standards were issued by the IASB, which are effective for the accounting period beginning on or after January 1, 2019 and have been adopted by the Company:

Standards, interpretations and amendments to existing standards those are effective in 2019

The following standards and amendments have become effective for the annual periods commencing on or after 1 January 2019:

Standard number	Title	Effective date
IFRS 1	First-time Adoption of International Financial Reporting Standards	1 January 2019
IFRS 16	IFRS 16 Leases	1 January 2019
IFRS 9	Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
IAS 28	Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
<i>Annual Improvements 2015-2017 cycle</i>		
IAS 19	Amendments to IAS 19 Plan Amendment, Curtailment or Settlement	1 January 2019
IFRIC 23	Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019

Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company

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
IAS 1 and IAS 8	Amendments to Definition of Material	1 January 2020
IFRS 3	Amendments to Definition of a Business	1 January 2020
	Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 10 and IAS 28	Amendments to Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021

Amendments to IAS 1 and IAS 8 on the definition of material

The Standard principally amends IAS 1 and IAS 8. The amendments refine the definition of material in IAS 1. The amendments clarify the definition of material and its application by improving the wording and aligning the definition across IFRSs and other publications. The amendment also includes some supporting requirements in IAS 1 in the definition to give it more prominence and clarifies the explanation accompanying the definition of material.

SHEBEKE INSURANCE BROKER LLC
NOTES ON FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019
(Expressed in Azerbaijani manats)

4. STANDARDS, INTERPRETATIONS AND AMENDMENTS (CONTINUED)

Amendments to IFRS 3 – definition of a business

The Standard amends IFRS 3 to clarify the definition of a business, assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity.

5. EQUIPMENT AND INTANGIBLE ASSETS

	<u>Equipment</u>	<u>Intangible assets</u>	<u>Total</u>
Cost:			
At 1 January 2018	1,452	94,000	95,452
Additions	1,058	-	1,058
Disposals	-	-	-
At 31 December 2018	2,510	94,000	96,510
Additions	-	-	-
Disposals	-	-	-
At 31 December 2019	2,510	94,000	96,510
Depreciation and amortisation:			
At 1 January 2018	(363)	(18,079)	(18,442)
Depreciation and amortisation expense	(359)	(7,592)	(7,951)
At 31 December 2018	(722)	(25,671)	(26,393)
Depreciation and amortisation expense	(308)	(6,692)	(7,000)
At 31 December 2019	(1,030)	(32,363)	(33,393)
Carrying amount at 31 December 2018	1,788	68,329	70,117
Carrying amount at 31 December 2019	1,480	61,637	63,117

6. CASH AND CASH EQUIVALENTS

	<u>2019</u>	<u>2018</u>
Cash on hand	407	7
Cash at banks	20,637	9,191
Bank debit card	2,174	608
Total cash and cash equivalents	23,218	9,806

7. TRADE AND OTHER RECEIVABLES

	<u>2019</u>	<u>2018</u>
Reinsurance contract transfers	30,080	120,953
Income tax receivable	25,251	14,031
Claims and call off contracts	2,519	19,228
Other	784	2,252
Total trade and other receivables	58,634	156,464

SHEBEKE INSURANCE BROKER LLC
NOTES ON FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019
(Expressed in Azerbaijani manats)

8. OTHER ASSETS	2019	2018
Receivable from related parties	-	22,500
Total other assets	-	22,500
9. CHARTER CAPITAL	2019	2018
Huseynov Kommunra (Individual person)	8	-
Muradova Leyla (Individual person)	8	-
Huseynova Irada (Individual person)	4	-
Rahimova Ulviyya (Individual person)	-	20
Total share capital	20	20
10. TRADE AND OTHER PAYABLES	2019	2018
Reinsurance contract transfers	19,916	104,907
Claims and call off contracts	2,519	19,228
Other	-	474
Total trade and other payables	22,435	124,609
11. PAYABLE TO SHAREHOLDERS	2019	2018
Payables to shareholders	104,200	103,000
Total payable to shareholders	104,200	103,000
12. OTHER LIABILITIES	2019	2018
Payables to employees	2,667	8,009
Other	3,917	3,719
Total other liabilities	6,584	11,728
13. SALES	2019	2018
Revenue from reinsurance contracts	313,736	681,217
Revenue from insurance policies	22,770	87,066
Other services	64,475	37,035
Total revenue	400,981	805,318
14. COST OF SALES	2019	2018
Cost of reinsurance arrangements	219,266	516,697
Total cost of sales	219,266	516,697

SHEBEKE INSURANCE BROKER LLC
NOTES ON FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019
(Expressed in Azerbaijani manats)

15. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2019</u>	<u>2018</u>
Staff costs	48,133	94,631
Consulting expenses	42,764	68,863
Business trip	33,302	21,934
Marketing expenses	13,335	602
Rent expenses	10,233	16,744
Training expenses	10,000	-
Amortisation of intangible assets	6,692	7,592
Bank charges	3,820	6,551
Transportation costs	2,321	2,870
Communication expenses	1,690	2,009
Insurance expenses	800	16,257
Office expenses	720	1,634
Depreciation of equipment	307	359
Other expenses	15,756	26,202
Total general and administrative expenses	<u>189,873</u>	<u>266,248</u>

16. TAXATION

Profit tax

	<u>2019</u>	<u>2018</u>
Current tax	-	6,985
Deferred tax	1,831	-
Total profit taxes	<u>1,831</u>	<u>6,985</u>

Deferred tax

	<u>2019</u>
Taxable temporary differences:	
Equipment	(252)
Intangible	(1,407)
Trade and other receivables	(32,599)
Unused vacation reserve	-
Total taxable temporary differences	<u>(34,258)</u>
Deductible temporary differences:	
Trade and other payables	22,435
Unused vacation reserve	2,667
Total deductible temporary differences	<u>25,102</u>
Net deferred taxable temporary differences	<u>(9,156)</u>
Net deferred taxable at the statutory tax rate (20%)	<u>(1,831)</u>
Net deferred tax liability	<u>(1,831)</u>

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

	<u>2019</u>	<u>2018</u>
Loss/profit before profit tax	(7,800)	20,897
Theoretical income tax at statutory rate (20%)	(1,560)	4,179
<i>Tax effect of items which are not deductible or assessable for taxation purposes:</i>		
Tax effect of permanent differences	3,391	2,806
Profit tax expenses	<u>1,831</u>	<u>6,985</u>

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.

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 2019 (31 December 2018: Nil) no provisions for potential tax liabilities were recorded.

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 2019 (31 December 2018: Nil).

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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 2019, the outstanding balances with related parties were as follows:

	<u>Shareholders</u>
Payable to shareholders	<u>104,200</u>

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

	<u>Shareholders</u>
Payable to shareholders	<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 17,974 for year ended 31 December 2019 and AZN 16,542 for the year ended 31 December 2018. Key management personnel included 1 person in 2019 and 2018.

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.

(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>2019</u>	<u>2018</u>
Cash and cash equivalents	6	23,218	9,806
Trade and other receivables	7	32,599	140,181
Other assets	8	-	22,500
Total carrying amount		<u>55,817</u>	<u>172,487</u>

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.

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

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.

	2019			
	AZN	EUR	USD	AZN
Financial assets				
Cash and cash equivalents	23,213	-	5	23,218
Trade and other receivables	29,481	2,519	599	32,599
Total financial assets	52,694	2,519	604	55,817
Financial liabilities				
Payable to shareholder	104,200	-	-	104,200
Trade and other payables	22,435	2,519	-	24,954
Other liabilities	6,584	-	-	6,584
Total financial liabilities	133,219	2,519	-	135,738
Open position	(80,525)	-	604	(79,921)
	2018			
	AZN	EUR	USD	AZN
Financial assets				
Cash and cash equivalents	6,928	-	2,878	9,806
Trade and other receivables	74,762	2,519	62,900	140,181
Other assets	22,500	-	-	22,500
Total financial assets	104,190	2,519	65,778	172,487
Financial liabilities				
Payable to shareholder	103,000	-	-	103,000
Trade and other payables	70,902	2,519	51,188	124,609
Other liabilities	11,728	-	-	11,728
Total financial liabilities	185,630	2,519	51,188	239,337
Open position	(81,440)	-	14,590	(66,850)

The following table illustrates the sensitivity of profit/(loss) before tax and equity in regards to the exchange rate of the AZN relative to the USD all other things being equal'. It assumes a 10% weakening/strengthening of the AZN as at 31 December 2019 (2018: weakening/strengthening 4%). The sensitivity analysis at each reporting date is as follows:

	Profit/(loss) before tax		Equity	
	2019	2018	2019	2018
	AZN	AZN	AZN	AZN
USD appreciation by 10% (2018: 4%)	60	584	48	467
USD depreciation by 10% (2018: 4%)	(60)	(584)	(48)	(467)

Impact on open position denominated in euro is Nil.

Management of the entity does not enter into future agreement to hedge its currency risk. However, these are monitored on regular basis and corrective measures initiated wherever required.

(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 2019 was AZN 9,919 and 31 December 2018 was AZN 19,550.

22. POST BALANCE SHEET EVENTS

On 18 March 2020 all shares of the Huseynov Kommunar (individual person) was transferred to one of the existing shareholders Huseynova Irada (individual person). As after Huseynova Irada (individual person) held 60% and Muradova Leyla (individual person) held 40% shares in the company.

The situation as of 31 December 2019 was that a limited number of cases of unknown pneumonia was reported to the World Health Organisation. There was no explicit evidence of human-to-human transmission at that date. These are the conditions that existed as of 31 December. The subsequent spread of the virus and its identification as a new coronavirus (COVID-19) do not provide additional evidence about the situation that existed on 31 December 2019.