Limited Liability Company “Insurance Company CARDIF”

Financial Statements and
Independent Auditors’ Report
For the Year Ended December 31, 2018

Limited Liability Company “Insurance Company CARDIF”

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Limited Liability Company “Insurance Company CARDIF”

Management’s Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended December 31, 2018

Management is responsible for the preparation of the financial statements that present fairly the financial position of Limited Liability Company “Insurance company CARDIF” (“the Company”) as of December 31, 2018, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company’s financial position and financial performance;
- Making an assessment of the Company’s ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with Russian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company;
- Preventing and detecting fraud and other irregularities.

The financial statements of the Company for the year ended December 31, 2018 were approved by the management on February 1, 2019.

On behalf of the Management:

Konstantin Kozlov
Chief Executive Officer

February 1, 2019

Etienne Rain
Chief Finance Officer

AO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047,
Russia

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INDEPENDENT AUDITORS' REPORT

To: the Participant of Limited Liability Company "Insurance company CARDIF"

Opinion

We have audited the financial statements of Limited Liability Company "Insurance company CARDIF" (the "Company"), which comprise the statement of financial position as at December 31, 2018 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or 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 skepticism 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.

Ekaterina Ponomarenko,
Engagement partner

Акционерное общество "Делойт и Туш СНГ"
для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

February 1, 2019

The Entity: LLC “Insurance company “CARDIF”

Certificate of state registration № 012685257, issued by the State Registration Chamber under the Ministry of Economy of the Russian Federation by 10.09.2009.

Certificate of registration in the Unified State Register series 77 №009341836, issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies №46 for the city of Moscow on date 03.07.2007.

Address: Novodmitrovskaya street, 2/1, Moscow, 127015, Russian Federation

Audit Firm: AO “Deloitte & Touche CIS”

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors “Russian Union of auditors” (Association), ORNZ 11603080484.

Limited Liability Company "Insurance Company CARDIF"

Statement of Financial Position as at December 31, 2018
(in thousands of Russian Roubles)

	Note	December 31, 2018	December 31, 2017
Assets			
Cash and cash equivalents	5,26	316,644	241,243
Deposits with banks	6,26	1,499,704	2,005,056
Investment securities available for sale	7	5,346,511	4,611,304
Insurance and other receivables	8	445,937	448,698
Prepayments	9	76,300	210,041
Deferred acquisition costs	10	10,410,005	9,919,723
Deferred tax asset	22	52,864	121,875
Reinsurers' share in reserves	13	1,894	10,931
Property and equipment	11	122,607	18,158
Intangible assets	12	26,639	1,389
Other assets		1,353	719
Total assets		**18,300,458**	**17,589,137**
Liabilities			
Insurance contract liabilities:			
Provision for unearned premiums	13	12,813,923	12,345,366
Claims provision	13	949,848	1,190,903
Unexpired risk reserve	13	3,914	748
Commissions payable	14	639,969	491,745
Profit share accrued	15	248,143	158,807
Deferred tax liability on Revaluation reserve		-	15,135
Other payables	16,26	210,022	357,483
Total liabilities		**14,865,819**	**14,560,187**
Equity			
Statutory capital	17	120,000	120,000
Additional paid-in capital	17	720,000	720,000
Revaluation reserve		(65,503)	60,542
Retained earnings		2,660,142	2,128,408
Total equity		**3,434,639**	**3,028,950**
Total liabilities and equity		**18,300,458**	**17,589,137**

Approved for issue and signed on February 1, 2019.

Konstantin Kozlov
Chief Executive Officer

ИНН 7714701780 ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ "Страховая компания CARDIF КАРДИФ" ОГРН 1077757490920 МОСКВА

Etienne Rain
Chief Finance Officer

The notes set out on pages 8 to 56 form an integral part of these financial statements.

Limited Liability Company "Insurance Company CARDIF"

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended December 31, 2018
(in thousands of Russian Roubles)

	Note	2018	2017
Gross written premiums, net of cancellations	18	8,834,939	9,428,806
Premiums ceded to reinsurers	18	(704)	(8,073)
Net written premiums		**8,834,235**	**9,420,733**
Change in gross provision for unearned premiums	13,18	(468,557)	(2,245,153)
Change in unexpired risk reserve	13,18	(3,165)	5,614
Change in provision for unearned premiums, reinsurers' share	13,18	(2,636)	(6,173)
Net earned premiums		**8,359,877**	**7,175,021**
Gross claims paid	18	(571,600)	(554,230)
Claims handling costs	18	(6,247)	(1,334)
Claims recoveries from reinsurers	18	1,828	(5,938)
Net insurance claims paid		**(576,019)**	**(561,502)**
Change in gross loss provision for claims	13, 18	241,055	214,883
Change in loss provision, reinsurers' share	13, 18	(6,401)	(3,223)
Net claims		**(341,365)**	**(349,842)**
Policy acquisition costs, net	18,19	(6,431,925)	(5,470,090)
Profit share		(131,649)	(113,661)
Net technical result	18	**1,454,938**	**1,241,428**
Interest income	20,26	513,834	559,150
Net underwriting result		**1,968,772**	**1,800,578**
Operating expenses	21,26	(836,103)	(777,380)
Foreign exchange gain		10,509	11,244
Other profit/(loss)		4,768	(15,271)
Profit before tax		**1,147,946**	**1,019,171**
Income tax expense	22	(216,212)	(154,915)
Net profit for the year		**931,734**	**864,256**
(Loss)/Income on revaluation of investment securities available for sale	7	(157,556)	58,095
Profit tax component of other comprehensive income	22	31,511	(11,619)
Other comprehensive (loss) / income for the year, net of tax		**(126,045)**	**46,476**
Total comprehensive income for the year		**805,689**	**910,732**

Approved for issue and signed on February 1, 2019.

ИНН 7714701780 Общество с ограниченной ответственностью "Страховая компания КАРДИФ" ОГРН 1077757490920 CARDIF КАРДИФ МОСКВА

Konstantin Kozlov
Chief Executive Officer

Etienne Rain
Chief Finance Officer

The notes set out on pages 8 to 56 form an integral part of these financial statements.

Limited Liability Company "Insurance Company CARDIF"

Statement of Changes in Equity
for the Year Ended December 31, 2018
(in thousands of Russian Roubles)

	Note	Statutory capital	Additional paid-in capital	Accumulated retained earnings	Revaluation reserve	Total equity
Balance at December 31, 2016		**120,000**	**720,000**	**1,514,152**	**14,066**	**2,368,218**
Net profit for the year		-	-	864,256	-	864,256
Dividends paid	17	-	-	(250,000)	-	(250,000)
Revaluation of investment securities available for sale, net of tax		-	-	-	46,476	46,476
Balance at December 31, 2017		**120,000**	**720,000**	**2,128,408**	**60,542**	**3,028,950**
Net profit for the year		-	-	931,734	-	931,734
Dividends paid	17	-	-	(400,000)	-	(400,000)
Revaluation of investment securities available for sale, net of tax		-	-	-	(126,045)	(126,045)
Balance at December 31, 2018		**120,000**	**720,000**	**2,660,142**	**(65,503)**	**3,434,639**

Approved for issue and signed on February 1, 2019:

Konstantin Kozlov
Chief Executive Officer

Etienne Rain
Chief Finance Officer

The notes set out on pages 8 to 56 form an integral part of these financial statements.

Limited Liability Company "Insurance Company CARDIF"

Statement of Cash Flows
for the Year Ended December 31, 2018
(in thousands of Russian Roubles)

	Note	2018	2017
Cash flows from operating activities			
Gross insurance premiums received		6,537,168	6,944,198
Gross reinsurance premiums paid		(898)	(10,557)
Gross insurance claims paid		(657,616)	(521,703)
Commission paid	14	(4,412,417)	(5,040,335)
Non-commission acquisition costs paid		(14,529)	(10,717)
Profit share paid		(42,313)	(52,373)
Operating expenses paid		(921,022)	(871,941)
Interest income received		532,947	464,661
Other income received		4,707	48,293
Profit tax paid		(26,704)	(261,391)
Net cash flow from operating activities		**999,323**	**688,135**
Cash flows from investing activities			
Purchase of investment securities available for sale	7	(2,065,516)	(2,776,398)
Proceeds on sale and repayment of investment securities available for sale	7	1,174,552	1,498,068
Purchase of property and equipment		(101,683)	(27,023)
Purchase of intangible assets	12	(27,050)	(121)
Net decrease in deposits with banks	6	484,205	472,227
Net cash used in investing activities		**(535,492)**	**(833,247)**
Cash flow from financing activities			
Dividends paid	17	(400,000)	(250,000)
Net cash used in financing activities		**(400,000)**	**(250,000)**
Net increase/(decrease) in cash and cash equivalents		**63,831**	**(395,112)**
Cash and cash equivalents at the beginning of the year	5	241,243	627,070
Exchange rate difference		11,570	9,285
Cash and cash equivalents at the end of the year	5	**316,644**	**241,243**

Approved for issue and signed on February 1, 2019

Общество с ограниченной ответственностью "Страховая компания "КАРДИФ" ИНН 7714701780 ОГРН 1077757490920 CARDIF *МОСКВА*

Konstantin Kozlov
Chief Executive Officer

Etienne Rain
Chief Finance Officer

The notes set out on pages 8 to 56 form an integral part of these financial statements.

1. Description of the company, governance and distribution

Description of the company*.* Limited Liability Company "Insurance Company CARDIF" (the "Company") is an insurance company registered in the Russian Federation and operating under insurance licenses (SL № 4104, SI № 4104 dated November 6, 2015) issued by the Central Bank of Russia.

Main activity of the Company is protection insurance, and mostly credit protection (for car loan, consumer loan, credit card and mortgage loan – CPI) and motor vehicles insurance (guaranteed asset protection – GAP, motor hull insurance and extended warranty insurance – EW) .

The company distributes its products in a Business to Business to Client mode (B to B to C), using external distributors such as retail banks, captive banks of automotive companies and autodealers.

The Company was created in July 2007, and employs 154 people as of December 31, 2018 (2017: 134 employees).

The Company's post and registered office is located at the following address: Russia, 127015, Moscow, Novodmitrovskaya street, 2/1. The Company has no other branches. The company is a 100% subsidiary of BNP Paribas CARDIF, itself a 100% subsidiary of BNP Paribas Group.

Governance. Members of the Company's Board of Directors (BoD), as of December 31, 2018 were: Mr. Alexandre Draznieks (the Chairman), Mr. Jean-Francois Bourdeaux and Mr. Andre Boulanger. All of the members of the Board of Directors are employees of BNP Paribas Group.

Distribution mode. Insurance products of the Company are offered mostly under individual insurance scheme (some small volumes are still sold under the collective scheme). Each scheme is being used depending on the distributor's preferences and individual product features. Collective scheme is applicable for banks' segment only.

In case of individual scheme of insurance, distributors act as an agent for the Company while end-clients purchase the insurance policy of the Company.

In case of collective scheme, distributors act as policyholders which organise insurance program for end-clients. For more details refer to Note 4.

In terms of distribution channels the Company works in the so-called POS (points of sales or branches of our partners) as well as via telemarketing (sales on the phone).

2. Operating environment of the Company

The Russian Federation displays certain characteristics of an emerging market. Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Russian Federation may change frequently and are subject to arbitrary interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The year 2018 has been marked by a slight growth of the main underlying market for the Company's business – automotive. This growth started in 2017 and has been supported by higher oil prices, the ruble regaining some of its lost value, and falling inflation. Russia's economic growth is expected to stabilise at around 2% p.a. in 2018-2020 as the country has adjusted to the new level of oil prices. However, there are some negative factors which could deter international investors, such as escalation of geopolitical tensions in Ukraine, international sanctions on Russia, and disagreements with the USA and EU.

Three groups of players are engaged in selling insurance related to auto market: retail banks, captive banks of automotive companies and autodealers. In addition to motor insurance auto dealers actively sell CPI,GAP and other forms of motor insurance and assistance services using disintermediation from banks, i.e. by directly getting such products from insurance companies. Automotive companies tend to internalise Extended Warranty for new vehicles by offering it as a service (rather than insurance).

2. Operating environment of the Company (continued)

The so-called "cool-off period" introduced by Central Bank of Russia which obliges an insurance company to reimburse 100% of the insurance premium paid by a client in case the client wants to cancel the contract during the first 5 days since inception, from 2018 was increased to 14 days, what affected the Company's cancellation rate during 2018.

During 2017 and 2018 the Central Bank of Russia, which is a unified banking and insurance regulator, took steps to reinforce controls and compliance requirements on the insurance sector coming to force in 2019 including, but not limited, increasing transparency and disclosure for end-clients of key products and contract features, including CPI. Additionally, the Company has implemented easy-to-understood by end-clients contracts and client information documentation.

In the Company's view, the current Russian bancassurance market is biased against consumers. During 2018 the Company developed and started to implement 4-year strategic plan. It is comprised of progressive step out from the high acquisition cost business lines and replace them with new products for automotive and mortgage markets based on digital technologies. The strategy is based on business model transformation from commodity-like business into higher value added and end-client friendly distribution and data-based product and service partner to distributors. It also includes necessary IT investments into cybersecurity and upgrade of infrastructure and set-up. The Company selected several priorities in its business model transformation (so-called "CARDIF Forward" projects) which aimed at creation of differentiating tools and services for its distributors. The ultimate aim of the strategy is to monetize created assets to improve profitability and end-client value.

3. Basis of presentation

General. The accompanying financial statements have been prepared in order to present the financial position and the results of operations of the Company in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect.

The Company maintains its accounting records in accordance with Russian Accounting Standards ("RAS"), which are based on IFRS. For accounting certain account balances in accordance with RAS the Company has chosen accounting policies different from IFRS. These financial statements are based on the Company's RAS records adjusted in order to comply with IFRS.

These financial statements are presented and rounded to thousands of RUB (Russian roubles) unless otherwise indicated. The RUB is used for these financial statements as the majority of the Company's transactions are denominated, measured, or funded in RUB, hence it is both the functional and reporting currency. Transactions in other currencies are treated as transactions in foreign currencies.

The financial statements have been prepared under the historical cost convention except investment securities available for sale, which are measured at fair value.

These financial statements have been prepared under the going concern assumption that the Company will continue having sufficient existing business and operation for the foreseeable future.

Critical accounting judgements and key sources of estimation uncertainty. In preparing the financial statements in accordance with International Financial Reporting Standards, management uses "fast close" process, which requires estimation of account balances as at reporting date and classes of transactions for the year then ended. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

(in thousands of Russian Roubles)

3. Basis of presentation (continued)

Insurance contract liabilities. Major assumptions refer to uncertainty regarding insurance contract liabilities. For insurance contract provisions estimates have to be made both for the expected ultimate cost of claims reported but not settled at the reporting date ("OCR") and for the expected ultimate cost of claims incurred but not yet reported at the reporting date ("IBNR"). The Company makes estimates of OCR and IBNR claims reserves on an undiscounted basis. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims reserve form a significant part of the insurance contract liabilities.

Reserves do not represent an exact calculation of liability, but instead represent estimates, generally using actuarial projection techniques (e.g. applying claims triangulation methods) at a given accounting date. These reserve estimates are expectations of what the ultimate settlement and administration of claims will cost based on the Company's assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity, frequency and other factors. The process of estimating the insurance claims reserves is based on the most current information available at the time the reserves are originally established.

However, claims reserves are subject to change due to the number of variables which affect the ultimate cost of claims, such as:

- Development in claims (frequency, severity and pattern of claims) between the amount estimated and actual experience;
- Changes arising due to the time lag between the occurrence of the insured event, notification of the claim (from the insured party or a third party) and the final settlement (payment) of the claim;
- Regulatory and legislative changes;
- Political and economic situation which might change some of the correlated macroeconomic parameters (inflation, FX rates, investment income rates).

Fair values. The Company has performed an assessment of its financial instruments, as required by IFRS 13 "Fair value measurement". The estimated fair values of financial instruments available for sale is based on quoted market prices at the reporting date without any deduction for transaction costs.

Equity/liabilities. Members' contributions to Russian "OOO" or "LLC" entities are frequently classified as liabilities. Management have considered the issue of classification regarding the specific circumstances of the Company and concluded that the contributions should be classed as equity capital. This is due to the one participant and the nature of the contribution (long term investment from parent which is unconditional and non-redeemable), meaning that the member would not exit the Company without the Company being liquidated and therefore the contributions comply with paragraph 16C of IAS32.

Recoverability of deferred tax assets. The management of the Company is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely that the deferred tax asset will be fully realised. As at December 31, 2018 the carrying value of deferred tax assets amounted to RUB 52,864 thousand and there are no deferred tax liabilities. As at December 31, 2017 the carrying value of deferred tax assets amounted to RUB 121,875 thousand, the carrying value of deferred tax liabilities – to RUB 15,135 thousand.

New and amended IFRS Standards that are effective for the current year. The same accounting policies, presentation and methods of computation have been followed the year ended December 31, 2018 as were applied in the preparation of the Company's financial statements for the year ended December 31, 2017, except for the accounting policies and impact of the adoption of the following new and amended Standards and Interpretations:

IFRS 15	*Revenue from Contracts with Customers (and the related Clarifications)*
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015-2017 Cycle*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*

3. Basis of presentation (continued)

IFRS 15 *Revenue from Contracts with Customers*. The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration.* IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

Application of IFRS 9 *Financial Instruments.* Companies, which businesses principally related to insurance, are permitted to postpone a transition from IFRS 39 to IFRS 9 to period starting from 1 January 2021 or till date of application of IFRS 17 Insurance Contracts if it comes earlier than 1 January 2021. As the Company is engaged in predominantly insurance activities, management of the Company plans to use the option to defer the application of IFRS 9 until the application of IFRS 17 on or after 1 January 2021. The management of the Company is currently assessing the potential impact of the changes on the Company's financial statements. It is not practicable to provide a reasonable estimate of the financial effect until the management completes the review.

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Details of these new requirements are described below.

Net interest income. Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at fair value through profit or loss (FVTPL) are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net gain/(loss) on trading assets and liabilities' and 'Net gain/(loss) on other financial instruments at FVTPL'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

3. Basis of presentation (continued)

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit-impaired financial assets, the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Net fee and commission income. Fee and commission income and expense include fees other than those that are an integral part of EIR (see above).

Net gain/(loss) on other financial instruments at FVTPL. Net gain/(loss) on other financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL except those that are held for trading.

Financial assets. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets at FVTPL. Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss.

Reclassifications. If the business model under which the Company holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Company's financial assets. Changes in contractual cash flows are considered under the accounting policy on *Modification and derecognition of financial assets* described below.

Modification and derecognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

Financial liabilities at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

3. Basis of presentation (continued)

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Net gain/(loss) on other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

<u>Other financial liabilities.</u> Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. For details on EIR see the "net interest income section" above.

<u>Derecognition of financial liabilities.</u> The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

New and revised IFRS Standards in issue but not yet effective. At the date of authorisation of these financial statements, The Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

IFRS 16	*Leases*
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Annual Improvements to IFRS Standards 2015-2017 Cycle	Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*
Amendments to IAS 19 *Employee Benefits*	Plan Amendment Curtailment or Settlement
IFRIC 23	*Uncertainty over Income Tax Treatments*

3. Basis of presentation (continued)

The management do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

IFRS 16 *Leases*

General impact of application of IFRS 16 Leases. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Company will be 1 January 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease. The Company will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Company will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on Lessee Accounting

<u>Operating leases.</u> IFRS 16 will change how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Company will:

(a) Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
(b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
(c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), The Company will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

3. Basis of presentation (continued)

As at 31 December 2018, the Company has a lease contract for the office building. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Company will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The management of the Company is currently assessing the potential impact of the recognition a right-of-use asset and a related lease liability on the Company's financial statements. It is not practicable to provide a reasonable estimate of the financial effect until the management completes the review.

Finance leases. The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application The Company will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Company's finance leases as at December 31, 2018 on the basis of the facts and circumstances that exist at that date, the management of the Company have assessed that the impact of this change will not have an impact on the amounts recognised in the Company's financial statements.

Impact on Lessor Accounting. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

IFRS 17 *Insurance Contracts*. The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*.

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, 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 cashflows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after January 1, 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start if 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 is currently assessing the potential impact of the changes on the Company's financial statements. It is not practicable to provide a reasonable estimate of the financial effect until the management completes the review.

3. Basis of presentation (continued)

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*.

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after January 1, 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The management of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statement.

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount reauired by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after January 1, 2019.

Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The management does not anticipate that the application of these amendments will have a material impact on the Company's financial statements, as the Company does not have any long-term interests in associates and joint ventures.

Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*

The Annual Improvements include amendments to 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 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.

All the amendments are effective for annual periods beginning on or after January 1, 2019 and generally require prospective application. Earlier application is permitted. The management of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements.

3. Basis of presentation (continued)

Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost ana net interest for the remainder of the reporting period after the change to the plan, in the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasurement IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prespectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after January 1, 2019, but they can be applied earlier if an entity elects to do so.

The management of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- 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.

The Interpretation is effective for annual periods beginning on or after January 1, 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prespectively.

The management of the Company does not anticipate that the application of this IFRIC will have a material impact on the Company's financial statements as the Company currently uses the approach to recognition of uncertain tax position, which is consistent with IFRIC 23.

4. Significant accounting policies

Cash and cash equivalents. Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and deposit accounts with banks with maturity up to one business day. Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

Deposits with banks. Deposits with banks are instigated by the Company by providing money directly to the counterparties. All deposits with banks and loans are recognised when cash is advanced to the counterparties. Initially they are recorded at cost, which is the fair value of the consideration given, and subsequently carried at amortised cost less any provision for impairment.

4. Significant accounting policies (continued)

A provision for impairment is established if there is objective evidence that the Company will not be able to collect the amounts due according to the original contractual terms. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount, calculated as the present value of expected cash flows, including any amounts recoverable from guarantees, discounted at the instrument's original effective interest rate.

Where deposits with banks become uncollectible, they are written off against the related provision for impairment. Such amounts are written off after all the necessary collection procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are treated as income and included within other income.

Where the provision for impairment is subsequently decreased as a result of an event occurring after the write-down, the release of the provision is credited to the provision for impairment within the Statement of Profit or Loss and Other Comprehensive Income. Interest earned on deposits with banks and loans is reflected in the Profit or Loss for the current period as interest income.

Investment securities available for sale. Investment securities available for sale are securities that management intends to hold for an indefinite period of time, which may be sold in response to liquidity and investment policies or changes in financial market conditions. Management initially determines the classification of its securities at the time they are purchased and this assessment is regularly reviewed. Investment securities available for sale are initially recognised at cost (which includes transaction costs) and are subsequently valued at fair value based on quoted market prices.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method and dividend income, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

The fair value of investment securities available for sale denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. Other foreign exchange gains and losses are recognised in other comprehensive income.

Impairment of available for sale investment securities. Investment securities available for sale are assessed for indicators of impairment at the end of each reporting period. Investment securities available for sale are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the investment securities available for sale, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

When an investment security available for sale is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

Impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

When a decline in fair value of investment securities available for sale has been recognised in equity and there is evidence of impairment the cumulative loss that has been recognised in equity is removed from equity and recognised in the Other Comprehensive Income.

All regular way purchases and sales of investment securities available for sale are recognised at trade date, which is the date when property rights are effectively transferred.

4. Significant accounting policies (continued)

Insurance and other receivables. Receivables are accounted for on an accruals basis. Receivables consist of insurance receivables (outstanding direct premiums due from policyholders, adjusted for cancellations), and other receivables.

Similar to the case of deposits with banks a provision for impairment is established if there is objective evidence that the Company will not be able to collect the amounts due according to the original contractual terms. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount, calculated as the present value of the expected cash flows.

If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Where receivables become uncollectible, they are written off against the related provision for impairment. Such amounts are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are treated as income and included within other income.

Where the provision for impairment is subsequently decreased as a result of an event occurring after the write-down, the release of the provision is credited to the provision for impairment within the Profit or Loss for the current period.

Prepayments and provision for suspense accounts. Prepayments are recorded on the payment date and are charged to the Statement of Profit or Loss and Other Comprehensive Income for the current period when the services are provided.

Provision for suspense account is established when prepayments contain potential risk that the services will not be provided according to contractual terms or there is an evidence of debtor not repaying the debt.

Aging report on suspense items is prepared on quarterly basis. Depending on the age of the suspense item an amount to be included in provision is defined, according to the following table:

- More than 1 year 100%;
- From 9 months to 1 year 75%;
- From 6 to 9 months 50%;
- From 3 to 6 months 25%;
- Less than 3 months 0%.

Also the individual review can lead to assess that the standard provision rate does not reflect appropriately the risk. In this case, the rate applied can differ from the standard rate. It should be documented and subject to a regular review.

Provisions are recognized as the expense in the income statement. Provisions should be discounted when the discounting effect is significant.

Property and equipment. Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

4. Significant accounting policies (continued)

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed.

A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Construction in progress is carried at cost, less any recognised impairment loss. Cost includes professional fees. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization 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 with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

4. Significant accounting policies (continued)

Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Share capital. Contributions made by the Company's shareholder pursuant to its Charter are qualified as share capital. Where the contributions to the equity were made in the form of financial aid, these contribution are referred to as additional paid-in capital.

Operating leases. An operating lease is defined as one where the lessor retains the risks and rewards related to the asset. When the Company acts as a lessee, lease payments are recognised as an expense on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Provisions. Provisions are recorded when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Insurance operations. Insurance contracts are those contracts that transfer significant insurance risk. Insurance risk exists when the Company has uncertainty in respect of one or several of the following matters at inception of the contract: the occurrence of the insurance event, the date of occurrence of the insurance event and the claim value in respect of the occurred insurance event.

The insurance underwritten by the Company is done under two legal schemes: individual and collective. The main differences between the schemes are as follows:

- Individual scheme usually comprises the loan borrower or other individual being both the insured and the policyholder. As for the collective scheme the distributor acts as the policyholder while the client is only the insured person and does not have a direct legal relationship with the Company; and
- Under individual scheme the distributor collects gross insurance premium from clients and transfers it to the Company. The Company pays the distributor a commission for intermediation. For the collective scheme the scenario is different: the distributor acts as a policyholder, it receives payments from the clients and pays insurance premium to the Company.

The insurance contracts protect the Company's policyholders from the consequences of events, such as death, total permanent disability, partial permanent disability, temporary disability, involuntary unemployment, fraudulent use of credit cards, theft and total destruction of an auto vehicle as well as theft or destruction of goods following the extended warranty and purchase protection covers, damage to the household property. There are no maturity or surrender benefits on the Company's insurance products. There is no investment risk inherited in the Company's products.

Gross written premiums. Gross written premiums, are recognised when written and are earned over the life of the policy on a pro-rate basis less an allowance for cancellations. In the financial statements and accompanying disclosures premiums are shown before the deduction of commission for the individual scheme and net of commission analogue for the collective scheme.

Provision for unearned premiums. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in-force as at the reporting date, calculated on a time apportionment basis. For the calculation of the provision for unearned premiums, the Company uses different methods depending on the nature of risks being covered. The so-called 12-rule calculation method (linear method, pro-rata temporis) is used under the assumption that risk is constant during the life of contract. The underlying principle of the so-called 45-rule (takes into account the nature of the credit loan amortization where the outstanding balance is decreasing non-linear in accordance with the bank credit schedule, thus the Company liability is changing in accordance) is assumption of a decreasing risk profile during the life of a contract.

4. Significant accounting policies (continued)

For part of CPI business for risks of total and permanent disability and part of motor business for risks of Extended GAP the benefit is the payment of the outstanding balance of the loan. The 45-rule of calculation of unearned premium reserve is used for such risks. For all other risks and products, where benefit is a fixed amount, the 12-rule is used for unearned premium reserve calculation.

Claims paid. Claims paid are charged to the Profit or Loss as incurred.

Claims handling costs. Claims handling costs include costs associated directly with specific claims paid or in the process of settlement, such as legal and adjusters' fees.

Claims provision. The claims provision represents an estimate of the Company's liability to pay insurance losses and includes the outstanding claims reserve ("OCR") and the reserve for losses incurred but not reported ("IBNR"). Claims handling expenses are included in both the OCR and the IBNR claims reserve.

The OCR is provided in respect of claims reported but not settled as at the reporting date. The estimation is made on the basis of information received by the Company during investigation of insurance cases as at and after the reporting date.

IBNR is actuarially determined by the Company using its own claims experience. For the main distributors the Company uses Mack Lognormal approach with a 90% quantile based on chain-ladder and Bornhuetter-Ferguson methods. For all the other distributors IBNR claims reserve is calculated by target loss ratio method.

The Company also estimates IBNR applying claims triangulation Bornhuetter-Ferguson actuarial method. Run-off analyses of IBNR and OCR estimates are also performed in order to retrospectively assess IBNR and OCR adequacy.

The Company continually reviews the adequacy of the established claims reserves, including emerging claims development, and actual claims compared to the original assumptions used to estimate gross claims reserves. Based on current information available, the Company has a view that its claims reserves are sufficient as at December 31, 2018. However, it is important to always bear in mind that the establishment of claims reserves is an inherently uncertain process involving numerous estimates, so that no assurance can be made that ultimate losses will not materially exceed the claims reserves and have a material adverse effect on the Company's results of operations.

The main change in the claims provision methodology relates to the IBNR for portfolios for which the calculation was made by the method of target loss ratio.

Previously the estimated loss ratio used by the method of target loss ratio was based on the priced loss ratio. Starting from April 30 2017, the estimated loss ratio is based on the actual profitability of a homogeneous product group for the last 1 or 2 years (depending on the product).

The effect in 2018 of this change in methodology is 447 million rubles (the release of a conservatively assessed reserve since priced loss ratio is usually higher than the actual loss ratio).

Profit share. With some of its distributors the Company has agreed to share technical results arising from the insurance activity through profit-sharing.

The profit share is based upon agreed formulae incorporating premiums written, ultimate claims to be incurred on these premiums, the up-front commission and the Company's up-front charge for its expenses.

Interest income and other income and expenses recognition. Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably. Interest income and expense are recognised 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 (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

4. Significant accounting policies (continued)

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Reinsurance. The Company cedes insurance in the normal course of business though volumes of reinsurance are not significant. Ceded insurance contracts do not relieve the Company from its obligations to policyholders.

Reinsurance assets include balances due from reinsurance companies for paid claims. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Reinsurance payables are obligations of the Company for the transfer of reinsurance premiums to reinsurers. Reinsurance receivables consist of the Reinsurers’ share in claims in respect of insurance cases reinsured by the Company to such Reinsurers.

Liability adequacy test. At the end of each reporting period the Company assesses whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in profit or loss.

Unexpired risk reserve. Unexpired risk reserve (“URR”) is created after the liability adequacy test performance. In case the Company expects that its future estimated cash outflows exceed its corresponding inflows (earning of the premiums) than URR is introduced.

URR is the reserve held in excess of the unearned premium reserve, to allow for an expectation that the unearned premium reserve will be insufficient to cover claims and expenses on the unexpired risks.

Policy acquisition costs and deferred acquisition costs. The Company pays commission to distributors for concluding insurance contracts.

Company’s commission expenses incurred during the financial period and related to conclusion of new insurance contracts and/or extension of the existing ones but covering future financial periods are carried forward to the extent they can be recovered from future income. Expenses related to conclusion of insurance contracts are carried forward to future periods and later are amortised in line with unearned premium reserve over the term of the contract. All other expenses related to conclusion of insurance contracts are recognised in expenses as incurred.

Non-commission acquisition costs include costs for policies printing and packaging as well as for proportional motivation for distributors’ workforce.

Payables. Payables are accounted for on the accruals basis.

Offsetting. Financial assets and financial 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 assets and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

The Company does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned.

(in thousands of Russian Roubles)

4. Significant accounting policies (continued)

In addition, the Company has no post-retirement or post-employment benefits or significant other compensated benefits requiring accrual.

Dividend distribution. Dividends are recognised in equity as a reduction in the period in which they are declared.

Taxation. Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax. The tax currently payable is based on taxable profit for the year. Taxable profit before tax as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Foreign currency translation. Transactions denominated in foreign currencies are recorded at the exchange rate applicable at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official exchange rate of the Central Bank of the Russian Federation as at the reporting date. Exchange differences from the translation of monetary assets and liabilities are recognised in the Profit and Loss statement as foreign exchange gain and losses.

As at December 31, 2018 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 69.4706 and Euro 1 = RUB 79.4605 (2017: USD 1 = RUB 57.6002 and Euro 1 = RUB 68.8668).

Reclassifications. Certain reclassifications have been made to the financial statements as at December 31, 2017 and for the year then ended to conform to the presentation as at December 31, 2018 and for the year then ended as current year presentation provides better view of the financial position of the Company.

	As previously reported		**Reclassification amount**		**As reclassified**	
	January 1, 2018	**December 31, 2018**	**January 1, 2018**	**December 31, 2018**	**January 1, 2018**	**December 31, 2018**
Insurance and other receivables	505,078	511,945	(56,380)	(66,008)	448,698	445,937
Cash and cash equivalents	179,314	305,605	61,929	11,039	241,243	316,644
Deposits with banks	2,066,985	1,510,743	(61,929)	(11,039)	2,005,056	1,499,704
Total assets	**17,645,517**	**18,366,466**	**(56,380)**	**(66,008)**	**17,589,137**	**18,300,458**
Other payables	(413,863)	(276,030)	56,380	66,008	(357,483)	(210,022)
Total liabilities	**(14,616,567)**	**(14,931,827)**	**56,380**	**66,008**	**(14,560,187)**	**(14,865,819)**

(in thousands of Russian Roubles)

5. Cash and cash equivalents

	December 31, 2018	December 31, 2017
Current accounts with banks	316,640	241,233
Cash on hand	4	10
Total cash and cash equivalents	**316,644**	**241,243**

The Company must hold part of its assets on the settlement accounts to meet the Russian legislation requirements for admissible assets underlying its insurance reserves and equity. The Company has current accounts with banks in RUB and in Euro.

The following table provides details of the Company's cash accounts as at December 31, 2018 and 2017:

December 31, 2018		Issuer's rating (Moody's/S&P/Fitch/ACRA)
Cash on hands	4	
JSC BNP Paribas Bank	151,758	-/-/-/AAA(RU)
VTB Bank (PJSC)	138,463	Ba1/BBB-/-/-
JSC Citibank	12,545	-/-/BBB-/AAA(RU)
JSC UniCredit Bank	12,171	-/BBB-/BBB-/AAA(RU)
Sberbank PJSC	1,703	Ba1/-/BBB-/AAA(RU)
Total cash and cash equivalents	**316,644**	

December 31, 2017		Issuer's rating (Moody's/S&P/Fitch/ACRA)
Cash on hands	10	
JSC BNP Paribas Bank	139,100	-/BB+/-/-
VTB Bank (PJSC)	88,510	Ba1/BB+/-/-
JSC UniCredit Bank	13,099	-/BB+/BBB-/AAA(RU)
Sberbank PJSC	524	Ba1/-/BBB-/AAA(RU)
Total cash and cash equivalents	**241,243**	

Currency and credit risk analyses including maturity and rating analysis of cash and cash equivalents are disclosed in Note 23.

The information on related party balances and transactions is disclosed in Note 26.

(in thousands of Russian Roubles)

6. Deposits with banks

	December 31, 2018	December 31, 2017
Deposits with banks	1,499,704	2,005,056
Total deposits with banks	**1,499,704**	**2,005,056**

The movements in carrying values of deposits with banks were as follows:

	December 31, 2018	December 31, 2017
Carrying value at January, 1	**2,005,056**	**2,473,549**
Withdrawal of deposits with banks (net)	(484,205)	(472,227)
Interest income accrued	159,743	249,406
Interest income received	(180,890)	(245,672)
Carrying value at December, 31	**1,499,704**	**2,005,056**

During 2018 and 2017 the Company had deposits nominated in RUB. At December 31, 2018 the average-weighted interest rate on deposits was 6.3% p.a. (2017: 9.2% p.a.).

The following table provides details of the Company's deposits with banks as at December 31, 2018 and 2017:

December 31, 2018		**Issuer's rating (Moody's/S&P/Fitch/ACRA)**
JSC RN Bank	825,159	-/BB+/-/-
JSC BNP Paribas Bank	354,380	-/-/-/AAA(RU)
LLC Rusfinance Bank	320,165	Ba1/-/-/-
Total deposits with banks	**1,499,704**	

December 31, 2017		**Issuer's rating (Moody's/S&P/Fitch/ACRA)**
JSC RN Bank	1,059,996	-/BB+/-/-
LLC Rusfinance Bank	885,008	Ba1/-/BBB-
PJSC «CREDIT BANK OF MOSCOW»	60,052	Ba1/BB+/-/-
Total deposits with banks	**2,005,056**	

Currency and credit risk analyses including maturity of deposits in other banks are disclosed in Note 23.

The information on related party balances and transactions is disclosed in Note 26.

(in thousands of Russian Roubles)

7. Investment securities available for sale

	December 31, 2018	December 31, 2017
Russian State Bonds ("OFZ")	4,563,583	4,107,589
Credit organisations bonds	782,928	503,715
Total investment securities available for sale	**5,346,511**	**4,611,304**

Russian state bonds ("OFZ") are securities issued by the Government of the Russian Federation and denominated in RUB.

Bonds of credit organisations are interest bearing securities issued by Russian banks and denominated in RUB.

All investment securities available for sale held by the Company are actively traded on Moscow Exchange.

The following table provides details of the Company's investment securities available for sale portfolio as at December 31, 2018 and 2017:

	December 31, 2018			December 31, 2017	
	Maturity days	Issues' rating (Moody's/S&P/ Fitch/AKPA)		Maturity days	Issues' rating (Moody's/S&P/ Fitch/AKPA)
Russian State Bonds (OFZ):			Russian State Bonds (OFZ):		
OFZ 25083	1080	Ba1/BBB/BBB-/-	OFZ 25081	31	Ba1/BBB-/BBB-/-
OFZ 26205	835	Ba1/BBB/BBB-/-	OFZ 26204	74	Ba1/BBB-/BBB-/-
OFZ 26209	1297	Ba1/BBB/BBB-/-	OFZ 26205	1200	Ba1/BBB-/BBB-/-
OFZ 26211	1486	Ba1/BBB/BBB-/-	OFZ 26209	1662	Ba1/BBB-/BBB-/-
OFZ 26214	513	Ba1/BBB/BBB-/-	OFZ 26217	1326	-/-/BBB-
OFZ 26216	135	Ba1/BBB/BBB-/-			
OFZ 26217	961	Ba1/BBB/BBB-/-			
OFZ 26220	1437	Ba1/BBB/BBB-/-			
Corporate bonds:			Corporate bonds:		
RN Bank 01	921	-/BB+/-/-	RN Bank 01	1286	-/-/-/-
RN Bank 1R1	472	-/BB+/-/-	RN Bank 1R1	837	-/-/-/AA(RU)
DeltaCredit 1R1	639	Ba1/-/-/-	DeltaCredit 1R1	1004	-/-/-/AAA(RU)
ToyotaBank 1R1	702	-/-/-/AAA(RU)	ToyotaBank 1R1	1067	-/-/A-/AAA(RU)
VW Bank 1R2	960	-/-/-/AAA(RU)			

At December 31, 2018 the average interest rate on investment securities available for sale was 7.5% p.a. (2017: 9.4% p.a.).

(in thousands of Russian Roubles)

7. Investment securities available for sale (continued)

The movements in carrying values of investment securities available for sale were as follows:

	2018	2017
Carrying value at January, 1	**4,611,304**	**3,184,675**
Purchase of investment securities available for sale	2,065,516	2,776,398
Proceeds on sale and repayment of investment securities available for sale	(1,174,552)	(1,498,068)
Interest income accrued	343,018	254,692
Interest income received	(352,057)	(218,989)
Amortization of discounts/(premium)	10,838	54,501
Changes in fair value revaluation reserve for investment securities available for sale	(157,556)	58,095
Carrying value at December, 31	**5,346,511**	**4,611,304**

Accrued accumulated coupon income paid by the Company to the seller for the purchase of investment securities available for sale is included in Gross (increase) in investment securities available for sale in the Statement of Cash Flow. In 2018 this figure amounted to RUB 13,902 thousand (2017: RUB 27,785 thousand).

8. Insurance and other receivables

	December 31, 2018	December 31, 2017
Due from policyholders	430,908	443,043
Other receivables	15,029	5,655
Total insurance and other receivables	**445,937**	**448,698**

9. Prepayments

	December 31, 2018	December 31, 2017
Income tax prepayment	13,808	117,929
Prepayment for other IT expenses	8,439	20,971
Prepayments for marketing expenses	4,806	4,443
Prepayment Premises	3,476	31,480
Prepayment for intangible assets	2,226	2,063
Medical insurance prepayment	1,599	1,987
Other prepayments	41,946	31,168
Total prepayments	**76,300**	**210,041**

Other prepayments mostly represent prepayments for IT soft development and amounts collected by incasso.

(in thousands of Russian Roubles)

10. Deferred acquisition costs

Changes in deferred acquisition costs ("DAC") are presented below:

	2018	2017
Deferred acquisition costs as at January, 1	**9,919,723**	**7,841,771**
Change in deferred acquisition costs	552,393	2,123,955
Change in deferred acquisition costs on Front fee	(62,111)	(46,003)
Total deferred acquisition costs as at December, 31	**10,410,005**	**9,919,723**

11. Property and equipment

	Computer equipment	Office equipment	Other	Total
Net book value at December 31, 2016	**12,426**	**2,636**	**2,056**	**17,118**
Cost				
Balance as at December 31, 2016	41,932	11,585	9,425	62,942
Additions	9,538	17,485	-	27,023
Transfer	(45)	(12,922)	12,967	-
Disposal	-	-	(12,967)	(12,967)
Balance as at December 31, 2017	**51,425**	**16,148**	**9,425**	**76,998**
Accumulated depreciation				
Balance as at December 31, 2016	(29,506)	(8,949)	(7,369)	(45,824)
Depreciation charge	(10,061)	(2,134)	(832)	(13,027)
Disposal	11	-	-	11
Balance as at December 31, 2017	**(39,556)**	**(11,083)**	**(8,201)**	**(58,840)**
Net book value at December 31, 2017	**11,869**	**5,065**	**1,224**	**18,158**
Cost				
Balance as at December 31, 2017	51,425	16,148	9,425	76,998
Additions	108,842	24,966	29,504	163,312
Transfer	-	(17,212)	17,212	-
Disposal	(11,778)	(8,411)	(9,005)	(29,194)
Balance as at December 31, 2018	**148,489**	**15,491**	**47,136**	**211,116**
Accumulated depreciation				
Balance as at December 31, 2017	(39,556)	(11,083)	(8,201)	(58,840)
Depreciation charge	(19,851)	(3,145)	(30,976)	(53,972)
Disposal	10,565	4,799	8,939	24,303
Balance as at December 31, 2018	**(48,842)**	**(9,429)**	**(30,238)**	**(88,509)**
Net book value at December 31, 2018	**99,647**	**6,062**	**16,898**	**122,607**

(in thousands of Russian Roubles)

12. Intangible assets

	Software	Total
Net book value at December 31, 2016	**908**	**908**
Cost		
Balance as at December 31, 2016	6,146	6,146
Additions	121	121
Balance as at December 31, 2017	**6,267**	**6,267**
Accumulated depreciation		
Balance as at December 31, 2016	(5,238)	(5,238)
Depreciation charge	(201)	(201)
Disposal	561	561
Balance as at December 31, 2017	**(4,878)**	**(4,878)**
Net book value at December 31, 2017	**1,389**	**1,389**
Cost		
Balance as at December 31, 2017	6,267	6,267
Additions	27,050	27,050
Balance as at December 31, 2018	**33,317**	**33,317**
Accumulated depreciation		
Balance as at December 31, 2017	(4,878)	(4,878)
Depreciation charge	(1,800)	(1,800)
Balance as at December 31, 2018	**(6,678)**	**(6,678)**
Net book value at December 31, 2018	**26,639**	**26,639**

Intangible assets of the Company as at December 31, 2018 include developed in 2013 bespoke IT tools ("My Cardif" and "CRM"), developed in 2015 "Docflow" project, developed 2017 B2C web-site and developed in 2018 "New CRM" and two mobile applications.

(in thousands of Russian Roubles)

13. Insurance contract liabilities, movements in provision for unearned premiums, movements in claims provisions

(a) Insurance contract liabilities:

	December 31, 2018			December 31, 2017		
	Insurance contract liabilities	Reinsurers' share in insurance contracts liabilities	Net	Insurance contract liabilities	Reinsurers' share in insurance contracts liabilities	Net
Provision for unearned premiums	12,813,923	(943)	12,812,980	12,345,366	(3,579)	12,341,787
Provision for unexpired risk reserve	3,914	-	3,914	748	-	748
Claims provision:	949,848	(951)	948,897	1,190,903	(7,352)	1,183,551
OCR	509,959	(613)	509,346	363,954	(5,892)	358,062
IBNR	439,889	(338)	439,551	826,949	(1,460)	825,489
Total insurance contract liabilities	**13,767,685**	**(1,894)**	**13,765,791**	**13,537,017**	**(10,931)**	**13,526,086**

(b) Movements in provision for unearned premiums:

	2018	2017
Net provision for unearned premiums at January 1	**12,341,787**	**10,090,461**
Change in gross provision for unearned premiums	468,557	2,245,153
Change in provision for unearned premiums, reinsurers' share	2,636	6,173
Net provision for unearned premiums at December 31	**12,812,980**	**12,341,787**

(c) Movements in claims provisions:

	2018	2017
Net claims provision at January 1	**1,183,551**	**1,395,211**
Change in gross OCR	146,005	63,936
Change in OCR, reinsurers' share	5,279	(956)
Change in IBNR	(387,060)	(278,819)
Change in IBNR, reinsurers' share	1,122	4,179
Net claims provision at December 31	**948,897**	**1,183,551**

14. Commissions payable

Total commissions payable consists of up-front commission due to distributors and excludes profit share. Movement in commissions payable is presented as follows:

	Note	2018	2017
Total commissions payable at January 1		**491,745**	**402,251**
Commissions accrued	19	6,908,165	7,546,774
Commissions paid		(4 412 417)	(5,040,335)
Commission retained by distributors		(2 347 524)	(2,416,945)
Total commissions payable at December 31		**639,969**	**491,745**

(in thousands of Russian Roubles)

14. Commissions payable (continued)

As explained in Note 4, the Company has agreed to make commission payments to its distributors in relation to the distribution arrangements in place. The financial statements include management's estimate of the total commission payable to distributors as at December 31, 2018. The amount of commission payable is defined as due to the distributors for the up-front commissions. The remaining amount of liability for profit share to the distributors according to commercial agreements between the Company and the distributors is recorded as a profit share accrued.

15. Profit share accrued

	31 December, 2018	31 December, 2017
Profit share	248 143	158,807
Total profit share accrued	**248 143**	**158,807**

Profit share accrued represent remuneration due to distributors linked to extra remuneration subject to profitability.

16. Other payables

	Note	December 31, 2018	December 31, 2017
Staff and management bonuses (including social taxes)		97,836	71,356
Reserve for legal cases	24	28,750	36,178
CARDIF Head Office services		19,486	28,685
IT costs		19,211	55,252
Accruals for unused vacations		11,437	9,783
Claims payable		4,697	23,324
Suspense accounts provision		2,510	14,438
Telecommunication costs		2,289	1,668
Office costs		1,117	4,828
Fees		660	26,769
Travel costs (flights, hotels, transport in business trip)		600	4,367
HR costs		175	7,755
Marketing costs		63	32,123
Non-commission acquisition costs payable		-	3,670
Other payables		21,191	37,287
Total other payables		**210,022**	**357,483**

Staff and management bonuses payable includes RUB 16,340 thousands of bonus for top management accrued for 2018 (2017: RUB 14,283 thousand). The information on related parties' balances is disclosed in Note 26.

17. Equity

Share capital. Share capital of the Company consists of the contributions made by the Company's sole participant. The share capital is fully paid in cash. As at December 31, 2018 statutory capital was of RUB 120,000 thousand, additional paid-in capital – RUB 720,000 thousand. There were no changes during 2018 as compared to 2017.

Dividends paid. In 2018 the Company paid dividends of RUB 400,000 thousand in May 2018 to its sole participant under the decisions made at the annual meeting of the Board of Directors in April 2018 (2017: the Company paid dividends of RUB 250,000 thousand).

(in thousands of Russian Roubles)

18. Net claims and benefits

(a) Analysis of net claims and benefits

The following table presents net claims and benefits by products for the year ended December 31, 2018:

	CPI	GAP	Auto other than GAP	Other products	Total
Gross written premiums, net of cancellations	5,997,137	1,672,225	193,931	971,646	8,834,939
Premiums ceded to reinsurers	(704)	-	-	-	(704)
Net written premiums	**5,996,433**	**1,672,225**	**193,931**	**971,646**	**8,834,235**
Change in gross provision for unearned premiums	(411,021)	40,561	(3,592)	(94,505)	(468,557)
Change in provision for unearned premiums, reinsurers' share	(2,674)	-	-	38	(2,636)
Change in provision for unexpired risk reserve	-	-	(3,165)	-	(3,165)
Net earned premiums	**5,582,738**	**1,712,786**	**187,174**	**877,179**	**8,359,877**
Commissions	(5,029,391)	(1,258,265)	(83,551)	(536,958)	(6,908,165)
Non-commission acquisition costs	(3,880)	(1,332)	47	(8,877)	(14,042)
Net written acquisition costs	**(5,033,271)**	**(1,259,597)**	**(83,504)**	**(545,835)**	**(6,922,207)**
Change in deferred acquisition costs	547,517	(48,388)	(4,788)	58,052	552,393
Change in deferred acquisition costs on Front fee	(62,111)	-	-	-	(62,111)
Net policy acquisition costs	**(4,547,865)**	**(1,307,985)**	**(88,292)**	**(487,783)**	**(6,431,925)**
Profit share paid	(8,147)	(33,881)	(240)	(46)	(42,314)
Net profit share paid	**(8,147)**	**(33,881)**	**(240)**	**(46)**	**(42,314)**
Change in profit share provision	(50,647)	(21,125)	650	(18,213)	(89,335)
Net profit share	**(58,794)**	**(55,006)**	**410**	**(18,259)**	**(131,649)**
Gross claims paid	(439,410)	(58,187)	(14,143)	(59,860)	(571,600)
Claims handling costs	(4,457)	(949)	(443)	(398)	(6,247)
Claims recoveries from reinsurers	1,683	-	-	145	1,828
Net insurance claims paid	**(442,184)**	**(59,136)**	**(14,586)**	**(60,113)**	**(576,019)**
Change in gross loss provision	189,153	90,516	(70,187)	31,573	241,055
Change in loss provision, reinsurers' share	(6,503)	-	-	102	(6,401)
Net insurance claims incurred	**(259,534)**	**31,380**	**(84,773)**	**(28,438)**	**(341,365)**
Net technical result	**716,545**	**381,175**	**14,519**	**342,699**	**1,454,938**

(in thousands of Russian Roubles)

18. Net claims and benefits (continued)

The following table presents net claims and benefits by products for the year ended December 31, 2017:

	CPI	GAP	Auto other than GAP	Other products	Total
Gross written premiums, net of cancellations	6,650,695	1,338,899	620,100	819,112	9,428,806
Premiums ceded to reinsurers	(6,113)	-	-	(1,960)	(8,073)
Net written premiums	**6,644,582**	**1,338,899**	**620,100**	**817,152**	**9,420,733**
Change in gross provision for unearned premiums	(1,681,448)	(173,517)	(326,624)	(63,564)	(2,245,153)
Change in provision for unearned premiums, reinsurers' share	(6,990)	-	-	817	(6,173)
Change in provision for unexpired risk reserve	-	-	3,626	1,988	5,614
Net earned premiums	**4,956,144**	**1,165,382**	**297,102**	**756,393**	**7,175,021**
Commissions	(5,476,558)	(1,066,938)	(352,728)	(450,550)	(7,346,774)
Non-commission acquisition costs	(323)	(542)	1,514	(1,916)	(1,267)
Net written acquisition costs	**(5,476,881)**	**(1,067,480)**	**(351,214)**	**(452,466)**	**(7,348,041)**
Change in deferred acquisition costs	1,761,174	140,619	185,908	36,254	2,123,955
Change in deferred acquisition costs on Front fee	(38,683)	(25)	212	(7,507)	(46,003)
Front fee	-	-	-	(200,001)	(200,001)
Net policy acquisition costs	**(3,754,390)**	**(926,886)**	**(165,094)**	**(623,720)**	**(5,470,090)**
Profit share paid	(15,883)	(31,882)	(4,384)	(224)	(52,373)
Profit share paid, reinsurers' share	7,735	-	-	-	7,735
Net profit share paid	**(8,148)**	**(31,882)**	**(4,384)**	**(224)**	**(44,638)**
Change in profit share provision	(57,994)	(5,424)	(6,498)	893	(69,023)
Net profit share	**(66,142)**	**(37,306)**	**(10,882)**	**669**	**(113,661)**
Gross claims paid	(434,474)	(30,674)	(33,979)	(55,103)	(554,230)
Claims handling costs	-	(539)	(560)	(235)	(1,334)
Claims recoveries from reinsurers	6,410	-	-	(12,348)	(5,938)
Net insurance claims paid	**(428,064)**	**(31,213)**	**(34,539)**	**(67,686)**	**(561,502)**
Change in gross loss provision	129,349	111,863	(56,662)	30,333	214,883
Change in loss provision, reinsurers' share	795	-	-	(4,018)	(3,223)
Net insurance claims incurred	**(297,920)**	**80,650**	**(91,201)**	**(41,371)**	**(349,842)**
Net technical result	**837,692**	**281,840**	**29,925**	**91,971**	**1,241,428**

(in thousands of Russian Roubles)

18. Net claims and benefits (continued)

In 2018 1st largest distributor contributed to 33% of gross insurance premiums written, 2nd largest distributor – 32% and 3rd largest distributor – 7% respectively (2017: 1st largest distributor – 27%, 2nd largest distributor – 25%, and 3rd largest distributor – 014%).

Information about number of insurance policies, policy cancellation and insurance claims is presented below:

	2018	**2017**
Number of new policies issued during period	1,064,814	2,338,127
Number of policy cancellations during period	26,347	22,598
Number of policies terminated due to claim payment during period	1,306	1,894

(b) Claims development

In order to achieve prudency in the claims reserve the Company performs certain analysis of the claims reserve development.

Claims reserve development. According to IFRS 4 standards, an insurer shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts. The insurer shall disclose information about insurance risk (both before and after risk mitigation by reinsurance) including information about: actual claims compared with previous estimates (i.e. claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year.

Run-off analysis. The below analysis shows the development of actual reported and paid claims by quarters in comparison with the created IBNR and OCR claims reserves as of the end of the corresponding initial reporting quarters.

The below reports simply compare actual paid claims with the corresponding created reserves.
So, for IBNR it shows the claims that were already incurred by the end of corresponding initial reporting quarter, but were neither paid nor reported as of the end of corresponding initial reporting quarter. And for OCR it shows the claims that were already incurred and reported by the end of corresponding initial reporting quarter, but were not paid as of the end of corresponding initial reporting quarter. So that the report shows what percentage of claims reserve was actually utilised.

(in thousands of Russian Roubles)

18. Net claims and benefits (continued)

1. IBNR claims reserve run-off analysis

Initial reporting date	Gross IBNR	Incremental reported and paid claims during development quarter, RUB mln															
		Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16
Q4 14	451	52	59	34	21	10	8	6	229	7	7	3	2	1	2	1	0
Q1 15	512	63	56	35	14	12	8	247	10	9	3	3	2	2	2	0	-
Q2 15	650	69	50	24	17	12	259	14	10	4	4	2	3	2	0	-	-
Q3 15	696	58	41	27	16	265	20	13	5	5	3	3	3	1	-	-	-
Q4 15	754	36	41	23	269	22	14	7	5	4	4	4	1	-	-	-	-
Q1 16	805	37	32	276	25	16	8	8	4	4	5	1	-	-	-	-	-
Q2 16	831	32	287	28	21	13	10	6	5	6	2	-	-	-	-	-	-
Q3 16	956	280	37	26	13	9	7	5	5	2	-	-	-	-	-	-	-
Q4 16	1 074	41	35	21	14	9	8	7	3	-	-	-	-	-	-	-	-
Q1 17	1 097	43	36	18	14	10	7	3	-	-	-	-	-	-	-	-	-
Q2 17	1 043	38	31	18	15	9	4	-	-	-	-	-	-	-	-	-	-
Q3 17	914	39	33	22	15	7	-	-	-	-	-	-	-	-	-	-	-
Q4 17	803	41	29	25	8	-	-	-	-	-	-	-	-	-	-	-	-
Q1 18	705	38	33	10	-	-	-	-	-	-	-	-	-	-	-	-	-
Q2 18	598	34	12	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Q3 18	485	15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Q4 18	400	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The cumulative claims paid, as percentage of the initially created IBNR claims reserve, is presented below:

Initial reporting date	Cumulative reported and paid claims during development quarter, %															
	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16
Q4 14	11%	25%	32%	37%	39%	41%	42%	93%	94%	96%	97%	97%	98%	98%	98%	98%
Q1 15	12%	23%	30%	33%	35%	37%	85%	87%	89%	89%	90%	90%	91%	91%	91%	
Q2 15	11%	18%	22%	25%	26%	66%	68%	70%	71%	71%	72%	72%	72%	72%		
Q3 15	8%	14%	18%	20%	59%	61%	63%	64%	65%	65%	66%	66%	66%			
Q4 15	5%	10%	13%	49%	52%	54%	55%	55%	56%	56%	57%	57%				
Q1 16	5%	9%	43%	46%	48%	49%	50%	51%	51%	52%	52%					
Q2 16	4%	38%	42%	44%	46%	47%	48%	48%	49%	49%						
Q3 16	29%	33%	36%	37%	38%	39%	39%	40%	40%							
Q4 16	4%	7%	9%	10%	11%	12%	13%	13%								
Q1 17	4%	7%	9%	10%	11%	12%	12%									
Q2 17	4%	7%	8%	10%	11%	11%										
Q3 17	4%	8%	10%	12%	13%											
Q4 17	5%	9%	12%	13%												
Q1 18	5%	10%	11%													
Q2 18	6%	8%														
Q3 18	3%															
Q4 18	0%															

As per the table above the factual claims paid (which are reported after initial reporting date when IBNR claims are analytically estimated) over the periods are less than 100% of the originally created IBNR claims reserves in the recent periods. This indicates that the IBNR claims reserving method arrives to IBNR claims reserves, which are sufficient to cover the incurred but not reported claims liabilities.

(in thousands of Russian Roubles)

18. Net claims and benefits (continued)

2. OCR run-off analysis

		Incremental paid claims during development quarter, RUB mln															
Initial reporting date	**Gross OCR**	**Q1**	**Q2**	**Q3**	**Q4**	**Q5**	**Q6**	**Q7**	**Q8**	**Q9**	**Q10**	**Q11**	**Q12**	**Q13**	**Q14**	**Q15**	**Q16**
Q4 14	219	110	30	5	1	1	0	0	0	0	0	1	1	0	0	0	0
Q1 15	206	98	15	5	2	0	0	0	1	0	1	1	0	0	0	0	-
Q2 15	170	66	12	6	1	0	0	1	1	1	1	0	0	0	0	-	-
Q3 15	129	46	18	6	1	1	2	2	1	1	0	0	0	0	-	-	-
Q4 15	235	68	23	6	4	5	3	1	1	0	0	0	0	-	-	-	-
Q1 16	311	68	20	12	9	5	3	2	1	1	0	0	-	-	-	-	-
Q2 16	333	59	28	16	9	4	3	1	2	1	0	-	-	-	-	-	-
Q3 16	332	83	32	20	10	8	2	2	2	0	-	-	-	-	-	-	-
Q4 16	291	76	37	20	13	3	4	5	0	-	-	-	-	-	-	-	-
Q1 17	338	81	31	22	6	5	8	1	-	-	-	-	-	-	-	-	-
Q2 17	342	76	37	12	11	10	1	-	-	-	-	-	-	-	-	-	-
Q3 17	322	82	23	17	12	2	-	-	-	-	-	-	-	-	-	-	-
Q4 17	353	71	39	21	7	-	-	-	-	-	-	-	-	-	-	-	-
Q1 18	362	84	38	14	-	-	-	-	-	-	-	-	-	-	-	-	-
Q2 18	435	86	28	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Q3 18	446	55	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Q4 18	464	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The cumulative claims paid, as percentage of the initially created OCR claims reserve, is presented below:

	Cumulative paid claims during development quarter, %															
Initial reporting date	**Q1**	**Q2**	**Q3**	**Q4**	**Q5**	**Q6**	**Q7**	**Q8**	**Q9**	**Q10**	**Q11**	**Q12**	**Q13**	**Q14**	**Q15**	**Q16**
Q4 14	50%	64%	66%	66%	67%	67%	67%	67%	67%	67%	68%	68%	68%	69%	69%	69%
Q1 15	48%	55%	58%	59%	59%	59%	59%	59%	60%	60%	60%	61%	61%	61%	61%	
Q2 15	39%	46%	50%	50%	50%	50%	51%	51%	52%	52%	52%	53%	53%	53%		
Q3 15	36%	49%	54%	55%	55%	57%	59%	59%	60%	60%	61%	61%	61%			
Q4 15	29%	39%	41%	43%	45%	46%	47%	48%	48%	48%	48%	48%				
Q1 16	22%	28%	32%	35%	37%	38%	38%	39%	39%	39%	39%					
Q2 16	18%	26%	31%	34%	35%	36%	36%	37%	37%	37%						
Q3 16	25%	35%	41%	44%	46%	47%	47%	48%	48%							
Q4 16	26%	39%	46%	50%	51%	52%	54%	54%								
Q1 17	24%	33%	40%	41%	43%	45%	45%									
Q2 17	22%	33%	37%	40%	43%	43%										
Q3 17	26%	33%	38%	42%	42%											
Q4 17	20%	31%	37%	39%												
Q1 18	23%	33%	37%													
Q2 18	20%	26%														
Q3 18	12%															
Q4 18	0%															

As per the table above the factual claims paid (which are paid after initial reporting date when OCR was created) are less than 100% of the originally created OCR, which shows that OCR was sufficiently created to cover incurred and reported claims liabilities.

(in thousands of Russian Roubles)

18. Net claims and benefits (continued)

3. Total claims reserves (i.e. IBNR claims reserve plus OCR) run-off analysis

		Incremental reported and paid claims during development quarter, RUB mln															
Initial reporting date	**IBNR + OCR**	**Q1**	**Q2**	**Q3**	**Q4**	**Q5**	**Q6**	**Q7**	**Q8**	**Q9**	**Q10**	**Q11**	**Q12**	**Q13**	**Q14**	**Q15**	**Q16**
Q4 14	670	162	89	39	22	11	8	6	229	7	8	4	3	2	2	1	0
Q1 15	718	162	71	40	16	12	8	247	11	9	4	4	2	2	2	0	-
Q2 15	820	135	62	30	18	12	259	15	11	5	5	2	3	3	0	-	-
Q3 15	826	104	59	32	18	266	21	15	7	6	3	3	3	1	-	-	-
Q4 15	989	104	64	29	273	27	17	8	6	4	4	4	1	-	-	-	-
Q1 16	1 115	106	52	289	34	21	10	10	5	5	6	1	-	-	-	-	-
Q2 16	1 164	91	315	44	30	17	14	7	7	7	2	-	-	-	-	-	-
Q3 16	1 289	363	69	46	24	16	9	7	7	2	-	-	-	-	-	-	-
Q4 16	1 365	118	71	41	27	12	12	12	3	-	-	-	-	-	-	-	-
Q1 17	1 436	124	67	40	20	14	15	4	-	-	-	-	-	-	-	-	-
Q2 17	1 385	113	68	30	25	18	5	-	-	-	-	-	-	-	-	-	-
Q3 17	1 236	121	56	39	27	9	-	-	-	-	-	-	-	-	-	-	-
Q4 17	1 156	111	67	46	15	-	-	-	-	-	-	-	-	-	-	-	-
Q1 18	1 068	122	71	24	-	-	-	-	-	-	-	-	-	-	-	-	-
Q2 18	1 033	120	40	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Q3 18	931	69	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Q4 18	863	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The cumulative claims paid, as percentage of the initially created total claims reserve, is presented below:

	Cumulative reported and paid claims during development quarter, %															
Initial reporting date	**Q1**	**Q2**	**Q3**	**Q4**	**Q5**	**Q6**	**Q7**	**Q8**	**Q9**	**Q10**	**Q11**	**Q12**	**Q13**	**Q14**	**Q15**	**Q16**
Q4 14	24%	37%	43%	47%	48%	49%	50%	85%	86%	87%	87%	88%	88%	88%	89%	89%
Q1 15	23%	32%	38%	40%	42%	43%	78%	79%	80%	81%	81%	82%	82%	82%	82%	
Q2 15	16%	24%	28%	30%	31%	63%	65%	66%	67%	67%	68%	68%	68%	68%		
Q3 15	13%	20%	24%	26%	58%	61%	62%	63%	64%	64%	65%	65%	65%			
Q4 15	11%	17%	20%	48%	50%	52%	53%	53%	54%	54%	55%	55%				
Q1 16	9%	14%	40%	43%	45%	46%	47%	47%	48%	48%	48%					
Q2 16	8%	35%	39%	41%	43%	44%	44%	45%	46%	46%						
Q3 16	28%	34%	37%	39%	40%	41%	41%	42%	42%							
Q4 16	9%	14%	17%	19%	20%	21%	21%	22%								
Q1 17	9%	13%	16%	17%	18%	20%	20%									
Q2 17	8%	13%	15%	17%	18%	19%										
Q3 17	10%	14%	17%	20%	20%											
Q4 17	10%	15%	19%	21%												
Q1 18	11%	18%	20%													
Q2 18	12%	15%														
Q3 18	7%															
Q4 18	0%															

As per the table above the factual claims paid (which are paid after initial reporting date when total claims reserve was created) are not above 90% of the originally created total claims reserves, which shows that total claims reserves are sufficient to cover all incurred claims (both reported and not reported).

(c) Sensitivity analysis

IBNR claims reserve is the predominant area of uncertainty in respect of claims value presented in these financial statements, since value of paid claims and OCR are mostly facts-driven and do not involve significant analytical assumptions and estimates. IBNR claims reserve is purely analytically derived element of the financial statements based on actuarial techniques.

(in thousands of Russian Roubles)

18. Net claims and benefits (continued)

The chain-ladder and Bornhuetter-Ferguson IBNR claims estimation methods are the core of the Mack Lognormal method used by the Company for IBNR claims reserve estimation.The chain-ladder technique involves the analysis of historical claims development factors and the selection of estimated development factors (possibly adjusted for assumed trends) based upon the historically observed pattern. The selected development factors are than applied to cumulative claims data for each past accident period, which is not yet fully developed to produce an estimated ultimate claims cost. The Company applies the chain-ladder technique to quarterly incurred claims data..

Under the Mack Lognormal method a confidence interval for the IBNR claims reserve is made based on assumed lognormal distribution of claims amounts and output from the chain-ladder ultimate claims estimation. The Company uses 90% quintile for setting up the IBNR claims reserve estimate used for the financial accounts.

In the following tables results of sensitivity analysis are presented illustrating sensitivity of the IBNR claims reserve estimate to variability in selected value of the development factors used for the chain-ladder technique.

For this analysis the Company performed the sensitivity analysis for the +/- 1% change of the development factors ("DF"). DFs that are higher than 1 are increased/decreased by 1%. If after decrease by 1% DF becomes less than 1 then its value is taken as 1.

		+1% change of DF			-1% change of DF		
Distributor	**IBNR at December 31, 2018**	**IBNR at December 31, 2018**	**Difference**	**Difference (%)**	**IBNR at December 31, 2017**	**Difference**	**Difference (%)**
1st distributor	12,579	27,033	14,454	115%	9,468	-3,111	(25%)
2nd distributor	17,311	37,957	20,646	119%	11,989	-5,322	(31%)
3rd distributor	52,895	227,279	174,384	330%	19,165	-33,730	(64%)
Total 3 distributors	**82,785**	**292,269**	**209,484**	**253%**	**40,622**	**-42,163**	**(51%)**

		+1% change of DF			-1% change of DF		
Distributor	**IBNR at December 31, 2017**	**IBNR at December 31, 2017**	**Difference**	**Difference (%)**	**IBNR at December 31, 2017**	**Difference**	**Difference (%)**
1st distributor	13,269	29,381	16,112	121%	8,290	-4,979	(38%)
2nd distributor	19,489	33,574	14,085	72%	14,850	-4,639	(24%)
3rd distributor	91,167	270,811	179,644	197%	46,981	-44,186	(48%)
Total 3 distributors	**123,925**	**333,766**	**209,841**	**169%**	**70,121**	**-53,804**	**(43%)**

As per the studies above we observe that 1% change of the development factors result in a 253% (December 31, 2017: 169%) increase and 51% (December 31, 2017: 43%) decrease of the IBNR claims reserve which shows that IBNR claims reserve is much sensitive towards considered factors. As a result each quarter the factors are analysed in terms of consistency and prudency.

19. Policy acquisition costs

	2018	**2017**
Commissions	(6,908,165)	(7,346,774)
Non-commission acquisition costs	(14,042)	(1,267)
Change in deferred acquisition costs	552,393	2,123,955
Change in deferred acquisition costs on Front fee	(62,111)	(46,003)
Front fee	-	(200,001)
Net policy acquisition costs	**(6,431,925)**	**(5,470,090)**

(in thousands of Russian Roubles)

20. Interest income

	2018	2017
Interest income from investment securities available for sale	353,856	309,193
Interest income from deposits	159,743	249,406
Interest income from loans	235	311
Other interest income	-	240
Total interest income	**513,834**	**559,150**

21. Operating expenses

	Note	2018	2017
Staff costs	26	(499,256)	(395,978)
Information and technology costs		(86,636)	(127,207)
Depreciation of property and equipment		(53,972)	(13,027)
Fees, taxes and other costs		(45,388)	(70,911)
Premises costs (rental expenses)		(37,766)	(53,082)
Marketing, advertising costs and entertainment		(35,176)	(42,076)
HO overheads		(28,303)	(24,834)
Travel expenses costs		(22,333)	(23,906)
Mail and telephone costs		(18,107)	(16,424)
Office supply and furniture costs		(7,366)	(9,734)
Depreciation of intangible assets		(1,800)	(201)
Total operating expenses		**(836,103)**	**(777,380)**

Remuneration of key management personnel included in staff costs is disclosed in Note 26.

22. Income taxes

Deferred tax asset. The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years.

The income tax rate applicable to the Company's income is 20%. The income tax rate applicable to the coupon on securities issued by the Government of the Russian Federation ("OFZ") is 15%.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The income tax expense comprises of the following:

	2018	2017
Current taxes on income for the reporting period	(130,825)	(220,189)
Deferred tax	(85,387)	65,274
Income tax expense	**(216,212)**	**(154,915)**

(in thousands of Russian Roubles)

22. Income taxes (continued)

Temporary differences are differences in claims, commissions and reserves. Reconciliation between the expected and the actual taxation charge is provided below.

	2018	2017
IFRS profit before tax	**1,147,946**	**1,019,171**
Theoretical tax expense at the applicable statutory rate (20%)	(229,589)	(203,834)
Non-deductible operating expenses	(15,722)	(9,040)
Difference due to another tax rate	14,594	11,622
Previous year adjustment	14,505	46,337
Income tax expense	**(216,212)**	**(154,915)**

Differences between the carrying value of assets and liabilities for IFRS and taxation purposes give rise to temporary differences. The tax effect of these temporary differences for financial statements as at December 31, 2018 and 2017 is as follows:

	December 31, 2018	December 31, 2017
Deferred tax assets/(liabilities) in relation to:		
Insurance reserves	1,396,933	2,112,337
Deferred acquisition costs	(1,360,445)	(1,990,462)
Revaluation of investment securities available for sale	16,376	(15,135)
Net deferred tax assets	**52,864**	**106,740**

The movements in deferred tax assets are the following:

	2018	2017
Deferred tax assets at January, 1	**106,740**	**53,085**
Charged to the income statement	(85,387)	65,274
Charged to equity	31,511	(11,619)
Deferred tax assets at December, 31	**52,864**	**121,875**
Deferred tax liabilities at December, 31	**-**	**(15,135)**

23. Financial risk management

This note sets out the major risks the Company faces and describes the Company's approach to managing these risks.

Principles and objectives, risk management framework. The Company has established a risk management framework to guarantee the solvency, the business continuation and the development of the Company, in optimised conditions of risk and profitability, and for benefit of:

- Policyholders who are provided with an adequate protection;
- Employees who are provided with an adequate risk management framework;
- Shareholders who are interested in the solvency and the performance of the Company.

The Company's Risk Management Framework is designed to:

- Identify, assess, monitor, mitigate, control and prevent risks;
- Produce supervision & regulatory reports;
- Guarantee the consistency between business objectives and levels of risk-taking;
- Develop the risk management culture.

The Company's risk management adheres to the following principles:

- Risk management creates value: contributes to achieve the Company's objectives and to identify growth business opportunities;
- Risk management is not a stand-alone activity but fully integrated into the Company's daily business activities and processes of the organization;
- Risk management is part of decision-making. The Company diversifies its risks and maintains a balanced portfolio of its risk exposure. Decisions are promptly implemented at every level of the Company in order to minimise potential adverse impact arising from market, regulatory or client situation changes;
- Responsibility for risk management resides at all line management levels within the Company.

As part of its risk management framework the Company employs a three line of defense model:

- Primary responsibility for risk identification and management lies with business management (the first line of defense);
- Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by internal control function and compliance (the second line of defense);
- Independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal control is provided by BNP Paribas Group internal audit, General Inspection (the third line of defence).

The Company's Risk Management Framework is built around the following families of risks:

- Financial risks cover market and credit risk, insurance risk, liquidity and capital management;
- Operational risk arises from inadequate or failed internal processes, or from people and systems or from external events;
- Strategic risk is linked to issues such as customer, brand, products and markets as well as any risks to the business model arising from changes in the Company's market competitors' actions.

23. Financial risk management (continued)

Cardif Russia introduced a Risk Committee to oversee all aspect of risk management, save for conduct and financial crime conduct, and brand and reputational risk.

Consequently, the committee’s particular focus is on insurance and operational risk, and in considering their impact on both the financial and non-financial goals. The main responsibilities of the committee us to:

- Review the risk strategy and its risk appetite, particularly in relation to capital and liquidity and to make recommendations on risk appetite to the Board;
- Provide a regular risk update, based on figures provided by actuaries;
- Review the design, completeness and effectiveness of the Risk Management Framework and to assess the adequacy and quality of the risk management function and effectiveness of risk reporting;
- Review and approve risk policies and any relevant Group business standards, and to monitor compliance with these and management's actions to remedy any breaches;
- Satisfy itself that risk-based information is used effectively by management;
- Review the effectiveness of operational controls;
- Review relationships with prudential regulatory authorities in relevant jurisdictions and developments in the prudential regulatory environment, and review significant actual or potential breaches of prudential regulation and actions being taken to address them;
- Review and recommend to the Board for approval any material regulatory filings;
- Review the security and resilience of the IT infrastructure.

The organization of the risk function evolves in 2018, with the dismissal of the Chief Risk Officer and more responsibilities transferred to CFO/Chief Actuary.

Risk register and internal control committee. Risk register is the Company’s main risk management tool, which aims to identify and collect risk events, which could affect the capacity of the Company to meet its objectives.

Risks collected in the Risk Register are monitored during Internal Control Committees which are held each quarter held by Risk Department. The Internal Control Committee is responsible for defining the Company’s risk management policy, which are then followed on the week-by-week Risk Committees and, if necessary, for making decisions on main risks.

For each identified risk a risk owner is appointed who is responsible for action plans implementation and follow-up.

Financial risks management framework

Market risk. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Company manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining cautious investment policy.

Due to non-savings nature of the business model the Company has insignificant exposure to this type of risk.

Currency risk. Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company’s principal transactions are carried out in RUB and its exposure to foreign exchange risk arises primarily with respect to EUR and USD in which part of its cash at bank and deposits is held.

The Company manages this risk by maintaining sufficient assets to meet liabilities in the same currency.

The Company consider that the currency risk exposure is immaterial, as foreign currency assets or liabilities are less than 1% of the total portfolio.

(in thousands of Russian Roubles)

23. Financial risk management (continued)

At December 31, 2018 the Company had the following positions in different currencies:

	RUB	EUR	USD	Total
Financial assets				
Cash and cash equivalents	165,519	151,125	-	316,644
Deposits with banks	1,499,704	-	-	1499,704
Investment securities available for sale	5,346,511	-	-	5,346,511
Insurance and other receivables	445,937	-	-	445,937
Deferred acquisition costs	10,410,005	-	-	10,410,005
Reinsurers' share in reserves	1,894	-	-	1,894
Total financial assets	**17,869,570**	**151,125**	-	**18,020,695**
Financial liabilities and insurance contract liabilities				
Insurance contract liabilities:				
Provision for unearned premiums	12,813,923	-	-	12,813,923
Claims provision	949,848	-	-	949,848
Unexpired risk reserve	3,914	-	-	3,914
Commissions payable	639,969	-	-	639,969
Profit share accrued	248,143	-	-	248,143
Other payables	187,581	22,441	-	210,022
Total financial liabilities and insurance contract liabilities	**14,843,378**	**22,441**	-	**14,865,819**
Net on balance sheet position as at December 31, 2018	**3,026,192**	**128,684**	-	**3,154,876**

The Company has enough assets in currency to cover its liabilities in foreign currencies.

At December 31, 2017 the Company had the following positions in different currencies:

	RUB	EUR	USD	Total
Financial assets				
Cash and cash equivalents	103,509	137,734	-	241,243
Deposits with banks	2,005,056	-	-	2,005,056
Investment securities available for sale	4,611,304	-	-	4,611,304
Insurance and other receivables	448,698	-	-	448,698
Deferred acquisition costs	9,919,694	21	8	9,919,723
Reinsurers' share in reserves	10,598	-	333	10,931
Total financial assets	**17,098,859**	**137,755**	**341**	**17,236,955**
Financial liabilities and insurance contract liabilities				
Insurance contract liabilities:				
Provision for unearned premiums	12,345,289	57	20	12,345,366
Claims provision	1,190,109	372	422	1,190,903
Unexpired risk reserve	748	-	-	748
Commissions payable	491,745	-	-	491,745
Profit share accrued	158,807	-	-	158,807
Other payables	328,798	28,685	-	357,483
Total financial liabilities and insurance contract liabilities	**14,515,496**	**29,114**	**442**	**14,545,052**
Net on balance sheet position as at December 31, 2017	**2,583,363**	**108,641**	**(101)**	**2,691,903**

(in thousands of Russian Roubles)

23. Financial risk management (continued)

An analysis of sensitivity of the Company's net income and equity to changes in the foreign currency exchange rates based on positions existing as at December, 31 2018 and 2017 a simplified scenario of a 20% change in major currencies to RUB exchange rates for 2018 and 20% for 2017 accordingly is as follows:

December 31, 2018	Effect on profit before tax	Effect on equity
20% appreciation of EUR against RUB	29,634	23,707
20% depreciation of EUR against RUB	(29,634)	(23,707)
20% appreciation of USD against RUB	-	-
20% depreciation of USD against RUB	-	-

December 31, 2017	Effect on profit before tax	Effect on equity
20% appreciation of EUR against RUB	21,728	17,383
20% depreciation of EUR against RUB	(21,728)	(17,383)
20% appreciation of USD against RUB	(20)	(16)
20% depreciation of USD against RUB	20	16

Interest rate risk. Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's insurance liabilities are not directly sensitive to the level of market interest rate risk, as they are undiscounted and contractually non-interest bearing. Furthermore, the Company does not have any interest sensitive insurance products to its clients. All investments of the Company have fixed interest rates and are not exposed to market interest rate changes. Hence, as at December 31, 2018 and 2017 the Company believes that it does not have significant exposure to interest rate risk.

Price risk. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when there is a long or short position in a financial instrument.

An analysis of sensitivity of the Company's profit before tax and equity to changes in quoted debt securities prices based on positions existing as at December 31, 2018 and 2017 and a simplified scenario of a 20% change in debt securities prices for 2018 and 20% for 2017 accordingly is as follows:

December 31, 2018	Effect on profit before tax	Effect on equity
20% increase in debt securities prices	1,069,302	855,442
20% decrease in debt securities prices	(1,069,302)	(855,442)

December 31, 2017	Effect on profit before tax	Effect on equity
20% increase in debt securities prices	922,261	737,809
20% decrease in debt securities prices	(922,261)	(737,809)

All Company's investment securities available for sale are held with institutions which have Russian sovereign or close to it credit rating hence the Company believes its exposure to price risk is not significant.

(in thousands of Russian Roubles)

23. Financial risk management (continued)

Credit risk. Credit risk is the risk of financial loss as a result of the default or failure of third parties to pay on their obligations to the Company. The Company's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The Company controls its credit risk by monitoring the credit rating (using the recognised international ratings agency Moody's Investors Service) of its counterparties with whom it has placed its invested assets, or where no rating is available, making an assessment of the exposure specific to these counterparties. Not rated assets capture assets not rated by external ratings agencies. Rating of the cash and cash equivalents, deposits and investments in securities is disclosed in Note 5, Note 6 and Note 7 respectively.

The Company's maximum exposure to credit risk is reflected in the carrying value of monetary items on the Statement of Financial Position, unless otherwise stated.

The table below represents the maximum exposure to credit risk as at December 31 for 2018 and 2017:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	316,644	241,243
Deposits with banks	1,499,704	2,005,056
Investment securities available for sale	5,346,511	4,611,304
Insurance and other receivables	445,937	448,698
Deferred acquisition costs	10,410,005	9,919,723
Reinsurance share in reserves	1,894	10,931
Total assets	**18,020,695**	**17,236,955**

Geographical concentration. The Company sells its policies solely within the Russian Federation while cedes reinsurance to OECD-domiciled reinsurance companies.

	Russian Federation	OECD countries*	December 31, 2018
Financial assets			
Cash and cash equivalents	316,644	-	316,644
Deposits with banks	1,499,704	-	1,499,704
Investment securities available for sale	5,346,511	-	5,346,511
Insurance and other receivables	445,937	-	445,937
Deferred acquisition costs	10,410,005	-	10,410,005
Reinsurers' share in reserves	1,281	613	1,894
Total financial assets	**18,020,082**	**613**	**18,020,695**
Financial liabilities and insurance contract liabilities			
Insurance contract liabilities:			
Provision for unearned premiums	12,813,923	-	12,813,923
Claims provision	949,848	-	949,848
Unexpired risk reserve	3,914	-	3,914
Commissions payable	639,969	-	639,969
Profit share accrued	248,143	-	248,143
Other payables	187,581	22,441	210,022
Total financial liabilities and insurance contract liabilities	**14,843,378**	**22,441**	**14,865,819**
Net position on financial assets and financial liabilities and insurance contract liabilities	**3,176,704**	**(21,828)**	**3,154,876**

(in thousands of Russian Roubles)

23. Financial risk management (continued)

	Russian Federation	OECD countries*	December 31, 2017
Financial assets			
Cash and cash equivalents	241,243	-	241,243
Deposits with banks	2,005,052	-	2,005,052
Investment securities available for sale	4,611,304	-	4,611,304
Insurance and other receivables	448,698	-	448,698
Deferred acquisition costs	9,919,723	-	9,919,723
Reinsurers' share in reserves	9,872	1,059	10,931
Total financial assets	**17,235,896**	**1,059**	**17,236,955**
Financial liabilities and insurance contract liabilities			
Insurance contract liabilities:			
Provision for unearned premiums	12,345,366	-	12,345,366
Claims provision	1,190,903	-	1,190,903
Unexpired risk reserve	748	-	748
Commissions payable	491,745	-	491,745
Profit share accrued	158,807	-	158,807
Other payables	328,798	28,685	357,483
Total financial liabilities and insurance contract liabilities	**14,516,367**	**28,685**	**14,545,052**
Net position on financial assets and financial liabilities and insurance contract liabilities	**2,719,529**	**(27,626)**	**2,691,903**

*OECD countries – The Organisation for Economic Co-operation and Development.

Liquidity risk. Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities. Liquidity risk exists when the maturities of assets and liabilities do not match. Liquidity risk is managed by the Company by broadly matching the duration of its invested assets and insurance liabilities.

The following table shows the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity. The nominal inflow/(outflow) disclosed in the table is the contractual, undiscounted cash flow on the financial liability. The Company's actual cash flows on these financial liabilities may vary significantly from this analysis.

(in thousands of Russian Roubles)

23. Financial risk management (continued)

The breakdown of the Company's financial assets and liabilities by maturity date as at December 31, 2018 was as follows:

	On demand or less than 1 month	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Carrying value**
Assets					
Cash and cash equivalents	316,644	-	-	-	316,644
Deposits with banks	306,287	472,105	721,312	-	1,499,704
Investment securities available for sale	-	-	635,494	4,711,017	5,346,511
Insurance and other receivables	-	445,937	-	-	445,937
Deferred acquisition costs	483,255	2,279,764	2,187,553	5,459,433	10,410,005
Reinsurers' share in reserves	183	877	643	191	1,894
Total financial assets	**1,106,369**	**3,198,683**	**3,545,002**	**10,170,641**	**18,020,695**
Financial liabilities and insurance contract liabilities					
Insurance contract liabilities:					
Provision for unearned premiums	604,998	2,845,568	2,701,172	6,662,185	12,813,923
Claims provision	89,635	440,465	228,417	191,331	949,848
Unexpired risk reserve	197	916	834	1,967	3,914
Commissions payable	639,969	-	-	-	639,969
Profit share accrued	-	248,143	-	-	248,143
Other payables	23,701	186,321	-	-	210,022
Total financial liabilities and insurance contract liabilities	**1,358,500**	**3,721,413**	**2,930,423**	**6,855,483**	**14,865,819**
Net position on financial assets and financial liabilities and insurance contract liabilities	**(252,131)**	**(522,730)**	**614,579**	**3,315,158**	**3,154,876**

(in thousands of Russian Roubles)

23. Financial risk management (continued)

The breakdown of the Company's assets and liabilities by maturity date as at December 31, 2017 was as follows:

	On demand or less than 1 month	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**Carrying value**
Assets					
Cash and cash equivalents	241,243	-	-	-	241,243
Deposits with banks	296,096	574,104	1,134,856	-	2,005,056
Investment securities available for sale	832,003	371,607	-	3,407,694	4,611,304
Insurance and other receivables	-	448,698	-	-	448,698
Deferred acquisition costs	464,750	2,188,727	2,058,257	5,207,989	9,919,723
Reinsurers' share in reserves	1,130	5,345	3,236	1,220	10,931
Total financial assets	**1,835,222**	**3,588,481**	**3,196,349**	**8,616,903**	**17,236,955**
Financial liabilities and insurance contract liabilities					
Insurance contract liabilities:					
Provision for unearned premiums	599,518	2,806,017	2,575,811	6,364,020	12,345,366
Claims provision	124,872	593,824	274,545	197,662	1,190,903
Unexpired risk reserve	36	170	156	386	748
Commissions payable	491,745	-	-	-	491,745
Profit share accrued	-	158,807	-	-	158,807
Other payables	14,078	343,405	-	-	357,483
Total financial liabilities and insurance contract liabilities	**1,230,249**	**3,902,223**	**2,850,512**	**6,562,068**	**14,545,052**
Net position on financial assets and financial liabilities and insurance contract liabilities	**604,973**	**(313,742)**	**345,837**	**2,054,835**	**2,691,903**

Asset/Liability management. The Company manages assets using a balanced approach taking into consideration quality of financial assets, diversification, ALM, liquidity, concentration and investment return.

Capital management. Capital management integrates Russian specificities considering that the gearing policy for the Company is not fully applicable because of restriction in capital management (country under sanctions).

The Company manages capital and solvency through an integrated and comprehensive framework of principles and governance structures as well as methodology, monitoring and reporting processes. Within defined principles, the Company manages its capital taking into account insurance and solvency regulation constraints in accordance with European and local standards. The Company's capital and solvency position is monitored and reported regularly. Based on the results of the capital management process and regulatory requirements the Company's management makes decisions on future actions concerning the capital.

Regulatory capital adequacy. The Company endeavours to manage its capital in order to meet local regulatory capital requirements at all times.

23. Financial risk management (continued)

The local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold in addition to their liabilities. The Company targets to hold, in addition to the minimum capital required to comply with the solvency requirements, an adequate buffer to ensure meeting the local capital requirements in case of unexpected situations.

In Russia insurance entities are required to maintain minimum solvency margin according to the existing legislation on the local market (practically represents Solvency I requirements applicable in the EU). The required minimum solvency margin for the Company, being a general insurer under the Russian statutory classification, is the greater than 16 percent of gross premiums written for the previous year or 23 percent of a three year average of claims incurred. A reduction is given for reinsurance based on reinsurance claims recoveries over three years as a percentage of gross claims in those years.

Since 2014 all pricing or repricing of products are set up not only in accordance with Solvency I principles, but also with Solvency II capital specific requirements (proxy approach).

Insurance risk. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

Types of risk. Insurance risk in the Company arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;
- Inadequate reinsurance protection or other risk transfer techniques; and
- Inadequate reserves.

For a portfolio of insurance contracts where the theory of probabilities is applied to pricing and reserving, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using actuarial techniques. Factors that aggravate insurance risk include a lack of risk diversification in terms of the type and amount of risk, the geographical location and the type of policyholder base covered.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected pervasively by a change in any subset of the portfolio. The Company has its insurance underwriting strategy and guidelines to effectively value the insurance risks accepted and to achieve a sufficiently large population to reduce the variability of the expected outcome. The Company has also included certain pricing margins into its premium rates.

The Company has developed its insurance underwriting strategy to diversify the gender, age, professional activity and geography of insurance risks accepted and within each of these categories to achieve a sufficiently large combination of insurance subjects to reduce the variability of the expected outcome.

The Company manages the frequency and severity of claims risks predominantly through a series of actuarial governance rules focusing on proactive actuarial risk monitoring, underwriting policies and permanent controls. The Company also has the right to reject the payment of a fraudulent claim or a claim arising from a policy where a policyholder provided false information during the policy application and issuance stage.

23. Financial risk management (continued)

The majority of the insurance business underwritten by the Company is of a short tail nature such as credit protection and individual protection insurances. The Company's underwriting strategy and risk appetite is agreed by the BNP Paribas CARDIF and communicated via specific policy statements and guidelines. Insurance risk is managed primarily at the Company's actuarial unit level with strong oversight from BNP Paribas CARDIF actuarial team.

Insurance risk management. The insurance risks are managed as follows:

- The Company's mortality and morbidity risks are mitigated by use of reinsurance. The Company selects the reinsurers, from those approved by the BNP Paribas CARDIF list, based on local factors, but assesses the overall program to manage risk exposures;
- Product design and pricing risk arises from poorly designed or inadequately priced products and can lead to both financial loss and reputation damage for the Company. Guidelines have been developed to support the businesses through the complete cycle of the product development process, financial analysis and pricing;
- Expense risk, defined as exposure to worse than anticipated operating experience on management and administration expenses, is primarily managed by the Company through the assessment of Company's profitability and frequent monitoring of expense levels.
- Additional claims related payments, which consider legal penalties, fines, compensations arising.

The defined sensitivity testing is used at both pricing and risk-monitoring stages to measure the capital required and volatility in earnings due to exposure to insurance risks. This enables the Company to determine whether action is required to reduce risk, or whether that risk is within the overall risk appetite.

Underwriting risk acceptance. Each and every pricing quotation is subject for the two lines approval: technical (actuarial) and territorial (business). The approval process is described in the Company's actuarial governance rules: actuarial guidelines and delegation rules. Actuarial guidelines are of two types: global actuarial guidelines created at the BNP Paribas CARDIF level and local actuarial guidelines developed and approved for the Company.

Technical and territorial lines include the following H1, H2, H3 delegation authorities.

Level of authority		**Territorial delegation holder**	**Technical delegation holder**
H1	Local	Chief Executive Officer (at December 31, 2018 Konstantin Kozlov)	Chief Finance Officer (at December 31, 2018 Etienne Rain)
H2	Regional	Zone Manager (at December 31, 2018 Alexander Draznieks)	Head of corresponding corporate actuarial unit at BNP Paribas CARDIF
H3	Corporate	Underwriting committee or new activity committee at BNP Paribas CARDIF	

Local authority levels are granted by BNP Paribas CARDIF underwriting committee. Different levels are defined according to exposed amount and type of business.

Reinsurance had an insignificant impact on the Company's results and balances as at December 31, 2018.

(in thousands of Russian Roubles)

23. Financial risk management (continued)

Actuarial and experience analysis. For the purpose of risk monitoring the Company performs experience analysis on a regular basis. This analysis is designed to monitor the characteristics of the initially priced cost of risk to compare it with factual claims experience for each of the Company's major distributors.

The results of the latest available experience analysis for the 3 main distributors of 2018 in terms of gross written premiums based on the cumulative data to date as at December 31, 2018 are the following:

Distributor	(1) Priced cost of risk	(2) Factual cost of risk (Paid)	(3) Factual cost of risk (Paid+OCR)	(4)=(3)/(1) % of priced cost of risk
1st largest distributor	799,048	259,525	352,112	44%
2nd largest distributor	870,359	318,996	388,632	45%
3rd largest distributor	781,632	216,437	266,763	34%
Total	**2,451,039**	**794,958**	**1,007,507**	**41%**

The results of similar experience analysis for the 3 main distributors of 2017 in terms of gross written premiums as at December 31, 2017 are the following:

Distributor	(1) Priced cost of risk	(2) Factual cost of risk (Paid)	(3) Factual cost of risk (Paid+OCR)	(4)=(3)/(1) % of priced cost of risk
1st largest distributor	495,225	117,484	173,868	35%
2nd largest distributor	501,938	152,584	186,532	37%
3rd largest distributor	592,951	164,362	181,965	31%
Total	**1,590,114**	**434,430**	**542,365**	**34%**

The above analysis indicates that the Company had sufficient safety margins included into its premium rates especially for its major distributors. Management believes that since the last experience analysis was performed there were no significant changes to the relative level of safety margins included into the Company's rates, so that at December 31, 2018 the Company continues to have strong safety cushions within its tariffs.

Operational risk management framework. Operational risk is the risk of a financial loss due to inadequate or failed internal processes which may involve employees and/or IT systems. External events include, but are not limited to, floods, fire, earthquakes and terrorist attacks to the extent they have an impact on the Company's processes. Operational risk also encompasses administrative risks, accounting risks, human resources risks, legal & tax risks, information system risks, and the financial implications resulting from commercial, reputation and compliance risks.

In order to manage operational risks properly the Company developed and implemented Operational Risk Incidents Procedure, which is a fundamental element of the Company's permanent operational control system. Each operational risk is assessed by considering the potential impact and the probability of the event occurring. Impact assessments are considered against financial, operational and reputation criteria.

The procedure imply the duty of each employee to declare the incidents of which he/she is aware to Operational Permanent Controller who registers the incident in the central administration system tool for further monitoring and follow-up.

23. Financial risk management (continued)

Strategic risk. The Company is exposed to a number of strategic risks. The Company's strategy needs to support its vision, purpose and objectives and be responsive to both the external and internal environment, for example changes in the competitive landscape, customer behaviour, regulatory changes and emerging trends (such as fintechs, climate change, arising natural catastrophes, pandemic diseases, improving longevity, genetically modified organisms and nanotechnologies). Strategic risk is explicitly considered throughout the Company's strategic review and planning process.

There are certain regulatory and environmental risks the Company is exposed to in its core bancassurance business which include the following:

- Majority of top retail banks have launched their own insurance companies to manage CPI and other products, internalize underwriting margins and squeezed external insurers out of this business;
- Low entrance barriers, where the Company's market, especially CPI, GAP and EW business can be taken over by cheaper competitors; and
- Regulators' pressure on bancassurance business being charged of end-client abuse of economic power (e.g. excessive distribution commissions and low end-client value as well as preventing competition for end-client choice).

24. Contingencies and commitments

Legal proceedings. In the normal course of business, claims against the Company are received from customers and counterparties. On a monthly basis Legal Department reports to Financial Department with provision on legal cases proceedings calculated on the basis of all court cases opened during last 12 months and considering the probability of loss and non-pecuniary damage claimed. (see Note 16).

Taxation. Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Company may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

On 24 July 2018, the Russian State Duma passed, in the third reading, Draft Law No. 489169-7 "Concerning the Introduction of Amendments to Parts One and Two of the Tax Code of the Russian Federation and Certain Legislative Acts of the Russian Federation," which provides, among other things, an increase in the standard rate of Value Added Tax (VAT) to 20%.

(in thousands of Russian Roubles)

25. Fair value of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, unobservable inputs reflect the Company's market assumptions. The hierarchy is as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter derivative contracts, traded loans and issued structured debt; and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

Fair value of the Company's financial assets and financial liabilities measured at fair value on a recurring basis. Some of the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique and inputs used).

Financial assets	Fair value as at December 31, 2018	Fair value as at December 31, 2017	Fair value hierarchy	Valuation technique and key input
Investment securities available for sale (see note 7)	5,346,511	4,611,304	Level 1	Quoted prices in an active market

Investment securities available for sale are carried on the statement of financial position at their fair value with changes in fair value recognised in Other Comprehensive Income.

There were no transfers between Level 1 and 2 in the period.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required). The management considers that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

	December 31, 2018		December 31, 2017	
	Balance value	Fair value	Balance value	Fair value
Cash and cash equivalents	316,644	316,644	241,243	241,243
Deposits with banks	1,499,704	1,499,704	2,005,056	2,005,056
Insurance and other receivables	445,937	445,937	448,698	448,698
Reinsurers' share in reserves	1,894	1,894	10,931	10,931
Other assets	1,353	1,353	719	719
Insurance contract liabilities:				
Claims provision	949,848	949,848	1,190,903	1,190,903
Unexpired risk reserve	3,914	3,914	748	748
Commissions payable	639,969	639,969	491,745	491,745
Profit share accrued	248,143	248,143	158,807	158,807
Other payables	210,022	210,022	357,483	357,483

(in thousands of Russian Roubles)

25. Fair value of financial instruments (continued)

	December 31, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	316,644	-	-	316,644	241,243	-	-	241,243
Deposits with banks		1,499,704	-	1,499,704		2,005,056	-	2,005,056
Insurance and other receivables	-	445,937	-	445,937	-	448,698	-	448,698
Other financial assets	-	1,353	-	1,353	-	719	-	719
Commissions payable	-	639,969	-	639,969	-	491,745	-	491,745
Profit share accrued	-	248,143	-	248,143	-	158,807	-	158,807
Other payables	-	210,022	-	210,022	-	357,483	-	357,483

Fair value estimates at Level 2 and Level 3 of the fair value hierarchy are performed using the method of discounted cash flows. The fair value of the instruments with fixed interest rates that are not quoted in active market is based on estimated discounted cash flows using current market interest rates of loans for new instruments with similar credit risk and remaining maturity.

26. Related party transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or to 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 substance, not merely the legal form.

Transactions are entered into the normal course of business with shareholders, top management and Group companies with whom the Company has significant shareholders in common. These transactions are performed on an arms length basis. The outstanding balances as at year-end, as well as income and expenses for the year with related parties are as follows:

	2018	
	Under common control (Group Companies)	Total per category in financial statements
Statement of Financial Position		
Assets		
Cash and cash equivalents	151,125	316,644
Deposits with banks	354,380	1,499,704
Prepayments	15	76,300
Liabilities		
Other payables	40,444	210,022
Statement of Profit or Loss and Other Comprehensive Income		
Interest income	9,212	513,834
Operating expenses	(100,731)	(836,103)

(in thousands of Russian Roubles)

26. Related party transactions (continued)

	2017	
	Under common control (Group Companies)	**Total per category in financial statements**
Statement of Financial Position		
Assets		
Cash and cash equivalents	138,143	241,243
Deposits with banks	854	2,005,056
Liabilities		
Other payables	40,530	357,483
Statement of Profit or Loss and Other Comprehensive Income		
Interest income	4,126	559,150
Operating expenses	(82,516)	(777,380)

In 2018 the total remuneration of top management amounted to RUB 72,428 thousand (2017: RUB 54,346 thousand). Members of the Company's Board of Directors receive no remuneration from the Company.

27. Subsequent events

No significant subsequent events took place between 31 December 2018 and the date of issue of these financial statements.

Approved for issue and signed on February 1, 2019.

Konstantin Kozlov
Chief Executive Officer

Etienne Rain
Chief Finance Officer