Страхование жизни

Allianz

ALLIANZ LIFE INSURANCE COMPANY, LTD

FINANCIAL STATEMENTS
IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2018

Moscow

Contents

Independent Auditor's Report

To the Participants and Board of Directors of Allianz Life Insurance Company, Ltd:

Our opinion

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

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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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 IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

AO PricewaterhouseCoopers Audit

30 April 2019

Moscow, Russian Federation

M. Y. Bogomolova, certified auditor (licence no. 01-000194), AO PricewaterhouseCoopers Audit

Audited entity: Allianz Life Insurance Company, Ltd.

Record made in the Unified State Register of Legal Entities on 3 September 2003 under State Registration Number 1037727041483.

30, Ozerkovskaya naberezhnaya str., Moscow 115184, Russia.

Independent auditor: AO PricewaterhouseCoopers Audit.

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890.

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431.

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association).

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547.

ALLIANZ LIFE INSURANCE COMPANY, LTD
Statement of Financial Position at 31 December 2018
(in thousands of Russian Roubles)

	Notes	2018	2017
ASSETS			
Cash and cash equivalents	7	333 943	1 163 749
Deposits with banks	8	1 284 997	3 132 439
Available-for-sale financial instruments	9	17 195 970	14 770 190
Held-to-maturity financial instruments	10	88 622	79 625
Financial instruments at fair value through profit or loss	11	115 911	180 044
Accounts receivable	12	2 857 672	1 922 361
Current income tax prepayment		162 205	98 370
Other prepayments	13	256 343	198 287
Reinsurers' share of life insurance provision	16	22 131	20 010
Reinsurers' share of provision for unearned premiums	17	124 577	132 112
Reinsurers' share of loss provision	18	189 584	54 182
Deferred acquisition costs	24	985 878	696 802
Investments in associates	14	291 915	299 684
Other assets		60 177	101 845
Premises and equipment and intangible assets	15	102 085	139 756
Total assets		**24 072 010**	**22 989 456**
LIABILITIES			
Life insurance provision	16	14 641 677	14 346 087
Provision for unearned premiums	17	2 734 311	2 291 786
Loss provision	18	850 599	598 464
Loans received	19	214 121	807 117
Deferred tax liabilities	28	189 951	177 961
Accounts payable	20	1 789 848	1 203 649
Total liabilities		**20 420 507**	**19 425 064**
Equity			
Share capital	30	240 000	240 000
Additional capital	30	2 217 346	2 217 346
Revaluation provision for available-for-sale financial instruments	9	(144 913)	553 859
Retained earnings		1 339 070	553 187
Total equity		**3 651 503**	**3 564 392**
Total liabilities and equity		**24 072 010**	**22 989 456**

Authorised for issue by the Management Board and signed on its behalf on 26 April 2019.

Svetlana Amshannikova
Chief Executive Officer

Raouf Veliev
Chief Financial Officer

Общество с ограниченной ответственностью Страховая "Альянс Жизнь" Компания Москва ОГРН 1027739250442

The notes set out on pages 5 to 49 form an integral part of these financial statements.

(in thousands of Russian Roubles)

	Notes	2018	2017
INSURANCE			
Gross premiums written	21	11 242 910	8 759 868
Premiums ceded	21	(824 222)	(669 910)
Change in provision for unearned premiums	17	(435 582)	12 371
Change in reinsurers' share in provision for unearned premiums	17	(7 535)	32 396
Net premiums earned		**9 975 571**	**8 134 725**
Gross claims paid	22	(9 108 406)	(7 073 216)
Reinsurers’ share in claims paid	22	550 167	381 972
Change in life insurance provision	16	984 709	296 921
Change in reinsurers’ share in life insurance provision	16	2 121	44
Change in loss provision	18	(250 665)	(2 336)
Change in reinsurers’ share in loss provision	18	135 403	17 774
Claims handling expenses	23	(487 959)	(455 917)
Net claims incurred		**(8 174 630)**	**(6 834 758)**
Acquisition costs	24	(1 495 067)	(1 184 144)
Commission income on reinsurance transactions	24	138 584	96 945
Change in deferred acquisition costs, net	24	227 200	86 628
Operating expenses	26	(588 274)	(633 303)
Change in provision for impairment of insurance receivables	12	(64 599)	(5 890)
Other expenses from insurance activities		(76 664)	-
Other income from insurance activities		8 267	1 442
Insurance activity result		**(49 612)**	**(338 355)**
INVESTMENT			
Interest income	27	1 264 511	1 257 475
Net realised gain on available-for-sale financial instruments		82 278	15 604
Net (loss) gain for financial instruments at fair value through profit or loss for the period		(187 551)	118 539
Investment operating expenses		(45 018)	(44 034)
Investment activity result		**1 114 220**	**1 347 584**
OTHER			
Net foreign exchange rate gains (losses)		49 044	(47 954)
Other expenses		(21 166)	(82 021)
Other activity result		**27 878**	**(129 975)**
Operating profit		**1 092 486**	**879 254**
Share of associate’s loss, net of income tax	14	(3 357)	(8 492)
Profit before tax from continuing operations		**1 089 129**	**870 762**
Income tax expense	28	(298 832)	(265 373)
Profit from continuing operations for the year		**790 297**	**605 389**
Loss from discontinued operations for the year	14	**-**	(29 497)
Profit for the year		**790 297**	**575 892**
Profit for the year, attributable to			
- participants		790 297	580 523
- non-controlling participants		-	(4 631)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation provision for available-for-sale financial instruments:			
- net change in fair value		(791 386)	314 674
- net change in fair value transferred to profit or loss		(82 238)	(15 604)
- income tax related to components of other comprehensive income	28	174 852	(59 814)
Share in associate’s other comprehensive income, net of income tax		(4 414)	795
Other comprehensive (loss) / income, net of tax		**(703 186)**	**240 051**
Total comprehensive income for the year		**87 111**	**815 943**
Total comprehensive income, attributable to:			
- participants		87 111	820 574
- non-controlling interest		-	(4 631)

(in thousands of Russian Roubles)

	Share capital	Additional capital	Revaluation provision for available-for-sale financial instruments	Retained earnings/ (accumulated losses)	Comprehensive income, attributable to participants	Non-controlling interest	Total equity
Balance as at 1 January 2017	**240 000**	**2 217 346**	**314 603**	**(27 295)**	**2 744 654**	**62 070**	**2 806 724**
Total comprehensive income for the year							
Profit for the year	-	-	-	580 523	580 523	(4 631)	575 892
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss							
Net change in fair value of available-for-sale financial instruments, net of tax effect	-	-	251 739	-	251 739	-	251 739
Net change in fair value of available-for-sale financial instruments transferred to profit or loss, net of tax effect	-	-	(12 483)	-	(12 483)	-	(12 483)
Share of associate's other comprehensive income, net of tax effect	-	-	-	795	795	-	795
Total other comprehensive income for the year	**-**	**-**	**239 256**	**795**	**240 051**	**-**	**240 051**
Total comprehensive income for the year	**-**	**-**	**239 256**	**581 318**	**820 574**	**(4 631)**	**815 943**
Disposal of subsidiary	-	-	-	(836)	(836)	(57 439)	(58 275)
Balance as at 31 December 2017	**240 000**	**2 217 346**	**553 859**	**553 187**	**3 564 392**	**-**	**3 564 392**
Total comprehensive income for the year							
Profit for the year	-	-	-	790 297	790 297	-	790 297
Other comprehensive income (loss)							
Items that are or may be reclassified subsequently to profit or loss							
Net change in fair value of available-for-sale financial instruments, net of tax effect	-	-	(633 109)	-	(633 109)	-	(633 109)
Net change in fair value of available-for-sale financial instruments transferred to profit or loss, net of tax effect	-	-	(65 663)	-	(65 663)	-	(65 663)
Share in associate's other comprehensive income, net of tax effect	-	-	-	(4 414)	(4 414)	-	(4 414)
Total other comprehensive loss for the year	**-**	**-**	**(698 772)**	**(4 414)**	**(703 186)**	**-**	**(703 186)**
Total comprehensive (loss) income for the year	**-**	**-**	**(698 772)**	**785 883**	**87 111**	**-**	**87 111**
Balance as at 31 December 2018	**240 000**	**2 217 346**	**(144 913)**	**1 339 070**	**3 651 503**	**-**	**3 651 503**

(in thousands of Russian Roubles)

	Notes	2018	2017
Cash flows from operating activities			
Gross premiums received		10 562 256	8 694 332
Ceded premiums paid		(368 479)	(660 845)
Gross claims paid		(9 191 165)	(7 059 021)
Claims ceded received		142 777	381 972
Acquisition costs paid		(1 472 534)	(1 110 217)
Claims handling expenses paid		(460 915)	(430 649)
Commission income on reinsurance outwards received		135 245	96 945
Interest income received		1 049 460	1 201 870
Operating expenses paid		(534 029)	(668 509)
Other income received		-	173 532
Other expenses paid		(61 978)	-
Income tax paid		(140 109)	(240 943)
Cash flows from operating activities before changes in operating assets and liabilities		**(339 471)**	**378 467**
(Increase) / decrease in operating assets			
Accounts receivable		-	(2 020)
Prepayments		40 332	46 095
Other assets		39 300	(109 405)
Increase / (decrease) in operating liabilities			
Accounts payable		918	(1 401)
Net cash flow from operating activities		**80 550**	**(66 731)**
Cash flows from investing activities			
Net cash proceeds (payments) on deposits with banks		1 905 285	(72 199)
Acquisition of available-for-sale financial instruments		(1 741 180)	(103 728)
Acquisition of financial instruments at fair value through profit or loss		(86 562)	(19 406)
Acquisition of premises and equipment		(42 341)	(119 501)
Disposal of subsidiary		-	(3 350)
Net cash flows from investing activities		**35 202**	**(318 184)**
Cash flows from financing activities			
Proceeds from borrowings		700 000	800 000
Repayment of borrowings		(1 300 000)	-
Interest expenses paid		(50 742)	-
Net cash flows from financing activities		**(650 742)**	**800 000**
Effect of exchange rate changes on cash and cash equivalents		44 655	(21 940)
Net (decrease) /increase in cash and cash equivalents		**(829 806)**	**771 612**
Cash and cash equivalents at the beginning of the year	7	1 163 749	392 137
Cash and cash equivalents at the end of the year	7	**333 943**	**1 163 749**

The notes set out on pages 5 to 49 form an integral part of these financial statements.

1. Introduction

Allianz Life Insurance Company, Ltd (hereinafter, the "Company") was registered in the Russian Federation in 2003 and re-registered in 2004. The Company's core lines of business includes long-term life insurance, pension insurance, investment life insurance and voluntary medical insurance.

The Company operates under licenses for voluntary life insurance (SG No. 3828 of 28 September 2015) and voluntary personal insurance other than voluntary life insurance (SL No. 3828 of 28 September 2015). The licences are issued by the Bank of Russia without limitation as to period of validity.

At 31 December 2018 and 31 December 2017, the Company had three branches in the Russian Federation.

The Company is registered at the following address: Russia, 115184, Moscow, Ozerkovskaya Naberezhnaya, 30.

As at 31 December 2018 and 31 December 2017, the Company was 99,9% owned by Allianz New Europe Holding GmbH (international insurance company registered in Austria) and 0,1% by JSC IC Allianz (Russian insurance company).

As at 31 December 2018 and 31 December 2017, 100% of Allianz New Europe Holding GmbH was held by Allianz SE, a worldwide insurance company (registered in Germany), which has publicly available financial statements.

Operating Environment of the Company. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Stable oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. This operating environment has a significant impact on the Company's operations and financial position.

Management is taking necessary measures to ensure sustainability of the Company's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

2. Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS").

Financial statements have been prepared on historical cost basis, except for available-for-sale financial instruments and financial instruments at fair value through profit or loss for the period recorded at fair value, and financial instruments held to maturity at amortised cost.

The principal accounting policies applied in the preparation of these financial statements are set out in Note 4. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Presentation currency. These financial statements are presented in Russian roubles. All amounts in the financial statements have been rounded to the nearest whole number in thousands of Russian roubles.

3. Adoption of New or Revised Standards and Interpretations

IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

3. Adoption of New or Revised Standards and Interpretations (Continued)

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a "three stage" approach, which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard. In accordance with the additional explanations and recommendations by the IFRS Committee, the Company decided to apply the extension for the application of IFRS 9 until 1 January 2021, as the Company adopts IFRS 17, Insurance Contracts.

The following amended standards became effective for the Company from 1 January 2018, but did not have any material impact on the Company:

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 "Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The new standard is applied using modified retrospective approach with the cumulative effect recognised in retained earnings on 1 January 2018. The new standard introduced the core principle that revenue must be recognised 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 recognised, 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 recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

4. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on 1 January 2019 or later, and which the Company has not early adopted.

Amendments to IFRS 4 - "Applying IFRS 9, "Financial Instruments", with IFRS 4, "Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach). These amendments apply to issues arising from the application of the new standard on financial instruments – IFRS 9, before the implementation of the standard developed by IASB for replacing IFRS 4. Such issues include temporary instability of results reflected in the statements. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued. In addition, the amended Standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. Those entities that defer their adoption of IFRS 9 will keep using IAS 39, the current standard for recording financial instruments. Amendments to IFRS 4 supplement the options prescribed by the Standard that can be used under the conditions of temporary instability. The Company opted for a late adoption of IFRS 9, as it met all the conditions, in particular: (i) its insurance liabilities exceeded 90% of total liabilities at 31 December 2015, and (ii) no subsequent material changes took place in its operations. The Company is currently assessing the impact of the new standard on its financial statements.

4. New Accounting Pronouncements (Continued)

The table below outlines financial assets as at 31 December 2018 to ensure comparability of the indicators with the entities' that apply IFRS 9 at 1 January 2018:

	Non-SPPI assets*		SPPI assets**		Carrying amount (IAS 39) of SPPI assets analysed by credit rating (gross carrying amount in case of assets carried at amortised cost)						Fair value of A-D rated or unrated assets (other than assets with low credit risk)
In thousands of Euro	**Fair value**	**Profit / (loss) from changes in fair value for the year**	**Fair value**	**Profit / (loss) from changes in fair value for the year**	**AAA-AA*** **	**A**	**BBB**	**BB-D**	**Unrated**	**Total for A-D rated or unrated assets**	
Available-for-sale financial instruments											
Government bonds	-	-	11 477 369	-	-	-	11 477 369	-	-	11 477 369	11 477 369
Corporate bonds	-	-	5 623 133	-	-	-	4 302 877	1 320 256	-	5 623 133	5 623 133
Municipal bonds	-	-	80 630	-	-	-	66 640	13 990	-	80 630	80 630
Units of investment funds	-	-	14 838	-	-	-	-	-	14 838	14 838	14 838
Total available-for-sale financial instruments	**-**	**-**	**17 195 970**	**-**	**-**	**-**	**15 846 886**	**1 334 246**	**14 838**	**17 195 970**	**17 195 970**
Financial assets held to maturity											
Government bonds	-	-	56 395	-	-	-	52 015	-	-	52 015	56 395
Corporate bonds	-	-	46 133	-	36 606	-	-	-	-	-	-
Total financial assets held to maturity	**-**	**-**	**102 528**	**-**	**36 606**	**-**	**52 015**	**-**	**-**	**52 015**	**56 395**
Loans and receivables											
Bank deposits	-	-	1 284 997	-	-	-	1 070 752	214 245	-	1 284 997	1 284 997
Other loans and receivables	-	-	2 857 672	-	531 349	-	13 470	-	2 312 853	2 326 323	2 326 323
Cash and cash equivalents	-	-	333 943	-	-	-	280 657	2 594	50 782	333 943	333 943
Total financial assets at amortised cost	**-**	**-**	**4 476 612**	**-**	**531 349**	**-**	**1 364 879**	**216 839**	**2 363 635**	**3 945 263**	**3 945 263**
Financial instruments held for trading											
Structured debt securities	96 548	(161 997)	-	-	-	89 852	6 696	-	-	96 548	96 548
Units of investment funds	3 658	(698)	-	-	3 658	-	-	-	-	-	-
Shares of other companies	15 705	(2 458)	-	-	15 705	-	-	-	-	-	-
Total financial instruments held for trading	**115 911**	**(165 153)**	**-**	**-**	**19 363**	**89 852**	**6 696**	**-**	**-**	**96 548**	**96 548**

* These are assets that do not meet SPPI criteria or assets held for trading, or assets under management that are measured at fair value.
** These are assets that meet SPPI criteria except for assets held for trading, or assets under management that are measured at fair value.
*** An entity considers AAA – AA rated assets as assets with low credit risk.

4. New Accounting Pronouncements (Continued)

The table below outlines financial assets as at 31 December 2017 to ensure comparability of the indicators with the entities' that apply IFRS 9 at 1 January 2018:

	Non-SPPI assets*		**SPPI assets****		**Carrying amount (IAS 39) of SPPI assets analysed by credit rating (gross carrying amount in case of assets carried at amortised cost)**						**Fair value of A-D rated or unrated assets (other than assets with low credit risk)**
In thousands of Euro	**Fair value**	**Profit / (loss) from changes in fair value for the year**	**Fair value**	**Profit / (loss) from changes in fair value for the year**	**AAA-AA*****	**A**	**BBB**	**BB-D**	**Unrated**	**Total for A-D rated or unrated assets**	
Available-for-sale financial instruments											
Government bonds	-	-	10 859 284	-	-	-	10 859 284	-	-	10 859 284	10 859 284
Corporate bonds	-	-	3 836 731	-	-	-	3 080 828	755 903	-	3 836 731	3 836 731
Municipal bonds	-	-	61 699	-	-	-	33 215	28 484	-	61 699	61 699
Units of investment funds	-	-	12 476	-	-	-	-	-	12 476	12 476	12 476
Total available-for-sale financial instruments	**-**	**-**	**14 770 190**	**-**	**-**	**-**	**13 973 327**	**784 387**	**12 476**	**14 770 190**	**14 770 190**
Financial assets held to maturity											
Government bonds	-	-	57 241	-	-	-	49 211	-	-	49 211	57 241
Corporate bonds	-	-	40 757	-	30 414	-	-	-	-	-	-
Total financial assets held to maturity	**-**	**-**	**97 998**	**-**	**30 414**	**-**	**49 211**	**-**	**-**	**49 211**	**57 241**
Loans and receivables											
Bank deposits	-	-	3 132 439	-	-	-	1 148 816	1 778 433	205 190	3 132 439	3 132 439
Other loans and receivables	-	-	1 922 361	-	72 312	-	-	-	1 850 049	1 850 049	1 850 049
Cash and cash equivalents	-	-	1 163 749	-	-	-	129 181	548 758	485 810	1 163 749	1 163 749
Total financial assets at amortised cost	**-**	**-**	**6 218 549**	**-**	**72 312**	**-**	**1 277 997**	**2 327 191**	**2 541 049**	**6 146 237**	**6 146 237**
Financial instruments held for trading											
Structured debt securities	161 292	97 621	-	-	277	106 463	54 552	-	-	161 015	160 738
Units of investment funds	3 630	884	-	-	3 630	-	-	-	-	-	-
Shares of other companies	15 122	2 964	-	-	15 122	-	-	-	-	-	-
Total financial instruments held for trading	**180 044**	**101 469**	**-**	**-**	**19 029**	**106 463**	**54 552**	**-**	**-**	**161 015**	**160 738**

* These are assets that do not meet SPPI criteria or assets held for trading, or assets under management that are measured at fair value.
** These are assets that meet SPPI criteria except for assets held for trading, or assets under management that are measured at fair value.
*** An entity considers AAA – AA rated assets as assets with low credit risk.

(in thousands of Russian Roubles)

4. New Accounting Pronouncements (Continued)

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time obtaining financing. Accordingly, IFRS 16 eliminates classification of leases into operational and finance leases under IAS 17 and instead all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company decided that it would apply the standard using the modified retrospective method, without restatement of comparatives.

The Company recognised a right of use asset of RR 431 033 thousand against a corresponding contractual lease liability at 1 January 2019. A reconciliation of the operating lease commitments disclosed to this liability is as follows.

	31 December 2018 / 1 January 2019
Total future minimum lease payments for non-cancellable operating leases (Note 31)	**48 621**
- Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	-
- Future variable lease payments that are based on an index or a rate	-
- Recalculation of minimum lease payments under one-year contracts for the term of three years*	26 634
- Recalculation of minimum lease payments under one-year contracts with a related party for the term of ten years**	567 214
- Effect of discounting to present value	(211 436)
Total lease liabilities	**431 033**

*planning and budgeting cycle applied by the Company
** relations with the related party imply long-term nature

IFRS 17, Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. Consequently, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss making, an entity will be recognising the loss immediately. The Company is currently assessing the impact of the new standard on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts, it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the interpretation. The Company is currently assessing the impact of the interpretation on its financial statements.

4. New Accounting Pronouncements (Continued)

Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Company does not expect a material impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments influence four standards. IFRS 3 clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company does not expect a material impact of the amendments on its financial statements.

Amendments to IAS 19, Plan Amendment, Curtailment or Settlement (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 requires remeasuring net defined benefit liability or asset. The amendments require using the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

5. Significant Accounting Policies

Cash and cash equivalents. Cash and cash equivalents represent assets that may be converted into cash within a business day and include cash on hand, cash balances with banks, cash balances on brokerage accounts as well as overnight deposits with the term of placement of up to one business day without restriction on their availability.

Deposits with banks. Deposits with banks represent loans originated by the Company by providing funds directly to banks. All deposits with banks are recognised when cash is advanced to banks. Initially they are recorded at fair value, and subsequently are measured at amortized cost, using the effective interest method, less allowance for impairment.

Interest income on deposits with banks is recognized in profit or loss as interest income using the effective interest rate method.

Financial instruments – key measurement terms.

Depending on their classification, financial instruments are carried at fair value or amortised cost. Valuation methods are described below.

Fair value is 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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

5. Significant Accounting Policies (Continued)

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the last trading price on the reporting date. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

A portfolio of financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Company: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Cost of an acquisition is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

5. Significant Accounting Policies (Continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities at fair value through profit or loss. Financial assets and liabilities measured at fair value through profit or loss for the period include securities acquired for subsequent sale in the nearest future or part of the portfolio of identified financial instruments that are managed jointly and for which there is evidence of recent actual pattern of short-term profit-taking; or securities, designated to securities measured at fair value through profit or loss at initial recognition.

The Company may designate financial assets and liabilities at fair value through profit or loss for the period where either:

- the assets or liabilities are managed, measured and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative financial instrument that significantly modifies cash flows that would otherwise be required under the contract.

The Company uses quoted market price to determine the fair value of financial assets and liabilities at fair value through profit or loss. Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. Changes in fair value of financial assets and liabilities at fair value through profit or loss are recognised in profit or loss.

Interest income on financial assets at fair value through profit or loss is recorded as interest income in profit or loss for the year.

Available-for-sale financial instruments. This category includes non-derivative financial assets which the management intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market quotations.

Available-for-sale financial instruments are accounted at fair value based on bid prices. Unrealised gains and losses arising after initial recognition are recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses on forex revaluation) until the asset is derecognised, at which time the accumulated profit or loss previously recognised in other comprehensive income is reclassified to profit or loss. Coupon and interest income on available for sale financial instruments is recognised in profit or loss as interest income using the effective interest method. The dividends received are reflected in profit or loss within other investment income.

Held-to-maturity financial instruments. This group includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has both the intention and ability to hold to maturity, except for those, that:

- the Company, upon initial recognition, designates as at fair value through profit or loss;
- the Company designates as available-for-sale; or
- meet the definition of loans and receivables.

Financial instruments are not classified as a held to maturity if the Company has the right to require that the issuer repay or redeem this financial instrument before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management classifies held-to-maturity financial instruments at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Financial instruments held to maturity are carried at amortised cost.

In case of a change in intention or ability to hold the investment until maturity, the Company may reclassify debt securities from "held to maturity" to "available for sale" if the following conditions are met:

- As a result of a non-recurring event that is beyond the Company's control and could not have been reasonably anticipated by the Company;
- If the date of sale is close to securities maturity date and change in market rates does not have a significant impact on the fair value of securities, in particular, if securities mature in less than three months;
- For the purposes of sales volume that is insignificant in relation to the total value of debt securities held to maturity.

5. Significant Accounting Policies (Continued)

If any of these conditions are not met, the Company should reclassify all debt securities held to maturity to "available for sale" and transfer them to the respective sub-ledger accounts of the balance sheet with prohibition to create the category "held to maturity debt securities" during two years following the year of such reclassification.

Derivative financial instruments. Derivative financial instruments, including contracts on foreign currency sale or purchase, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Company does not apply hedge accounting. Derivative financial instruments and financial instruments classified as at fair value upon initial recognition, the changes of which are recorded in profit or loss, cannot be reclassified from this category.

Derecognition of financial instruments. The Company derecognises financial asset when the Company's contractual rights to cash flows from this financial asset expire or when it transfers all risks and rewards associated with this asset. All assets or liabilities associated with transfer of assets are recognised separately as assets or liabilities. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Receivables and prepayments. Accounts receivable are accounted for on the accrual basis and are carried at amortised cost less impairment provision. Accounts receivable include receivables arising from insurance comprising amounts receivable under direct insurance contract, receivables under reinsurance contracts comprising amounts receivables from reinsurers on settled claims and other receivables.

Prepayments are recorded on the payment date and are recorded in profit or loss when the services are provided. Prepayments represent prepayments under voluntary medical insurance programme and other prepayments.

Other assets. Other assets include cash on brokerage accounts (guarantee deposit).

Offsetting. Financial assets and liabilities are offset and recorded in the statement of financial position on a net basis if there are legal grounds and the parties intend to settle liabilities by offsetting or realise the assets and settle liabilities simultaneously.

Impairment

Available-for-sale financial instruments. Debt security available for sale is impaired if there is an objective evidence of the event that caused impairment of expected cash flows, i.e. all contractual payments payable on security are not considered as recoverable. This is caused mainly by financial difficulties of the issuer. Fair value decrease to the level below amortised cost resulting from the change in risk-free interest rates per se is not an objective evidence of impairment.

If there is objective evidence that the cost may not be recovered, an available-for-sale equity security is considered impaired. The objective evidence that the cost may not be recovered apart from qualitative indications of impairment include significant or continued reduction of the fair value to the level below cost. According to the Company's accounting policies, the decrease is considered to be significant if the fair value is at least 20% lower of the weighted average of costs or when the fair value is lower than the weighted average of costs for over nine months. If an available-for-sale equity security is recognised as impaired based on quantitative and quantitative indications of impairment, any subsequent decrease in the fair value in subsequent periods is recognised as impairment. Impairment loss in the amount of the difference between the fair value and the cost less the amount of previously recognised impairment is recognised every reporting period on each equity security, for which indications of impairment were identified.

In subsequent periods, if the fair value of impaired available-for-sale debt security increases, and the increase in the value may be objectively associated with the event occurred after recognition of impairment loss, such as improvement of a borrower's credit rating, the impairment loss is reversed and the reversed amount is recorded in profit or loss. However, any subsequent reversal in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Financial instruments carried at amortised cost

Impairment losses from financial assets are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence 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.

5. Significant Accounting Policies (Continued)

The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realizability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment was overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by counterparty's financial information that the Company obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

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.

Future cash flows in a group of financial assets that were collectively evaluated for credit loss, were estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts would become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience was adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently. If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related provision for impairment after all the necessary procedures to recover the asset were completed and the amount of the loss was determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Impairment of receivables and prepayments. If the Company has an objective evidence that the receivables and prepayments will not be collected, the Company creates a provision for impairment of receivables and prepayments decreasing their carrying amount. Loss on the receivables and prepayments impairment is recorded in the statement of profit or loss and other comprehensive income.

At first, it assesses whether there is an objective evidence that the individually significant receivable amount is impaired (hereinafter - "assessment on an individual basis"). Apart from assessment on an individual basis, it assesses impairment of receivables on a collective basis, by groups of credit risk (types of transactions, types of counterparties, overdue periods). Receivables for which indications of impairment were identified on an individual basis are not included in subsequent assessment on a collective basis.

The Company obtains evidence of impairment of receivables and prepayments by applying methods and estimations that are the same as those applied to impairment analysis of financial assets carried at amortised cost.

Non-financial assets. Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit, exceeds its recoverable amount.

5. Significant Accounting Policies (Continued)

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the financial statements.

Investments in associates. Associates are entities over which the Company has significant influence, but not control or joint control, on financial and operating activities. Significant influence implies shareholding of between 20 and 50 percent of the voting rights.

Ownership interests in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The value of investments includes acquisition costs. Financial statements include the Company's share in profit and loss and other comprehensive income of investees accounted for using the equity method, after adjustment aiming to bring the accounting policies in line with the Company's accounting policies starting from the moment of exerting significant influence to the date of termination of significant influence. When the Company's share in losses exceeds ownership interest in the associate, accounted for using equity method, the carrying amount of such interest, including any long-term investments, decreases till null, and subsequent losses are derecognised, except when the Company has liabilities and made payments on behalf of the investee.

Accrued interest income and expense. Accrued interest income and accrued interest expense, including both accrued coupon income and amortised discount, are included in the carrying amount of related assets and liabilities of the statement of financial position.

Premises and equipment. The Company's premises and equipment include office and computer equipment, motor vehicles and other fixed assets. The original cost of fixed assets is determined as the amount of actual costs incurred to acquire and bring them to the condition suitable for use in accordance with the intentions of the management. Upon initial recognition, an item of premises and equipment is stated at cost, less accumulated depreciation and impairment losses. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At each reporting date, the Company assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Company estimates the recoverable amount, which is determined as the higher of a net realisable value and its value in use. Where the residual value of an asset is higher than its estimated recoverable amount, the carrying amount of premises and equipment is reduced to the recoverable amount and the difference is recognised in statement of profit or loss and other comprehensive income as the loss from impairment of premises and equipment.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

The result from disposal of premises and equipment is calculated against carrying amount and is recorded in profit or loss for the reporting period. Repair and maintenance costs are recognised as expenses in the period in which they occurred.

Depreciation of the item of premises and equipment commences when it is put into operation. Depreciation is applied on a straight-line basis to the residual value over the following useful lives of assets:

Group of premises and equipment	Useful lives
Inseparable leasehold improvements	5-10 years, but not exceeding the period during which the lessor is not entitled to unilateral termination of lease agreement.
Transport vehicles	5-7 years
Office and computer equipment	3-5 years
Other premises and equipment	3-10 years

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

Intangible assets. Intangible assets are software licences acquired by the Company and program development costs. Costs associated with maintaining computer software programs are recorded as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Company and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

5. Significant Accounting Policies (Continued)

Expenditure, which enhances or extends the performance of computer software programs beyond their original specifications is recorded as a capital improvement and added to the original cost of the software. Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives not exceeding five years.

The Company assesses indications of impairment of intangible assets at each reporting date. If any of such indication exists, the Company estimates the recoverable amount of an asset, which is determined as the higher of a net realisable value of an asset and its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to profit or loss. Impairment loss of any assets recognised in prior periods is reversed in case the recoverable amount of an asset changes.

Borrowings. Borrowings are financial liabilities of the Company, where the contractual arrangement results in an obligation either to deliver cash or another financial asset to the creditor, or to otherwise settle an obligation. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Income and expenses are recognised in profit or loss both upon derecognition and through depreciation.

The Company obtains evidence of impairment of borrowings by applying methods and estimations that are the same as those applied to impairment analysis of financial assets carried at amortised cost.

Accounts payable. Payables are accounted for on the accrual basis and are carried at amortised cost. Payables include:

- insurance payables on insurance transactions that represent the Company’s obligations to transfer commission to agents and prepayments under insurance contracts that have not come into effect;
- reinsurance payables that are the Company’s obligations to transfer reinsurance premiums to reinsurers;
- other payables.

Derecognition of payables occurs when the corresponding liability ceases to exist.

Charter capital. The Company was incorporated as a limited liability company under laws of the Russian Federation. For the reporting purposes, charter capital of limited liability companies created in accordance with Russian laws could be classified as a financial liability. The reason for this is that Federal Law No. 14-FZ “On Limited Liability Companies” of 8 February 1998 provides that limited liability companies’ participants are able to unilaterally require redemption of their share in net assets provided that there is an appropriate provision in the limited liability company’s foundation documents and the current statutory requirements for share capital are met. In such cases a limited liability company is bound to pay to such participant a part of the company’s net assets determined on the basis of the statutory financial statements prepared in accordance with Industry Account Standard for the most recent reporting period preceding the date of a request for withdrawal from the company in cash or, upon agreement with the participant, in kind by asset transfer.

The Company’s foundation documents do not provide for an opportunity for its participants to unilaterally require redemption of their share in net assets. The participant will not be able to withdraw from the Company unilaterally even if the number of the Company’s participants increases to three or more. Therefore, for the financial reporting purposes, the charter capital and additional capital, securities revaluation provision and the Company's retained earnings are classified as equity components.

Additional capital. Additional capital includes free target financing received from the participants that has not been registered as an increase in the charter capital.

Revaluation provision at fair value for financial assets available for sale. Revaluation provision includes the revaluation provision for securities available for sale. Revaluation provision for securities comprises accumulated unrealised gains or losses on revaluation of securities available for sale.

Insurance and investment contracts – classification

The Company issues contracts that contain insurance risk or financial risk or both.

Insurance contracts are defined as those contracts that transfer significant insurance risk at the inception of the contract, or those that at the inception of the contract contain a scenario with commercial substance where the level of insurance risk may become significant. Insurance risk exists when a company has uncertainty in respect of the following matters at inception of the contract: occurrence of the insured event, date of occurrence of the insured event, and the claim amount in respect of the occurred insured event. Such contracts may also transfer financial risk.

5. Significant Accounting Policies (Continued)

Investment contracts are those contracts that contain financial risk with no significant insurance risk. Financial risk is the risk arising from the possible change in one or more specific indicators, like interest rate, financial instrument price, commodity price, currency exchange rate, price or rate index, credit rating or credit index or any other variable, provided that in case of a non-financial variable, such variable is not related specifically to one of the parties to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period. However, investment contracts could be designated as insurance contracts and reclassified appropriately after inception if insurance risk becomes significant.

Description of insurance products.

The Company offers the following insurance products:

- Investment life insurance;
- Endowment life insurance;
- Pension insurance (with periodic allowance);
- Accident and health insurance;
- Voluntary medical insurance.

Discretionary participation features (DPF).

Life insurance and investment contracts are classified as contracts with or without discretionary participation feature (DPF). A DPF is a contractual right that gives holders of these contracts the right to receive as a supplement to guaranteed benefits, significant additional benefits that are based on the performance of the assets held within the DPF portfolio whose amount or timing is contractually at the discretion of the Company. The Company has the discretion over the amount and timing of the distribution of these surpluses to policyholders, but not less than defined by the current legislation. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance or investment contract liabilities, as appropriate.

Life insurance provisions

Life insurance provisions are determined based on actuarial valuations. Provision for future claims under certificates of insurance is calculated based on Zillmer net premium for each certificate of insurance. The basis of actuarial provision applied in the calculation of provision for future claims on certificates of insurance are based on the combination of historical data, best estimates of the development of the main estimates and provision for unfavourable developments. The key assumptions applied are: discount rate, actual rate of return on investments, cost of servicing one certificate of insurance, profitability of death / disability.

Life insurance provisions classified as insurance represent the sum of the following provisions:

- mathematical provision;
- provision for expenses on servicing insurance liabilities;
- outstanding claims provision;
- provision for claims incurred prior to the end of the period not reported until after the end of the period;
- provision for bonuses;
- provision for deferred income.

The Company calculates the share of reinsurers in provisions in proportion to transferred responsibilities under reinsurance contracts.

Non-life insurance provisions

Provision for Unearned Premiums. Provision for unearned premiums is a part of the total amount of the insurance premium recognised in the reporting period, which refers to the existing contracts at the reporting period and is calculated in proportion to the remaining contract validity period.

5. Significant Accounting Policies (Continued)

Loss provision. Loss provision represents an estimate of liabilities to pay claims in future and includes outstanding claims provision (OCP) and provision for losses incurred but not yet reported (IBNR). OCP is created 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 the insured events, including information received after the reporting date. The Company calculates IBNR for each type of insurance is separately using actuarial methods and assumptions based on historical data on insurance claims. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in profit or loss as they arise. The provision for claims is estimated on an undiscounted basis due to the relatively quick pattern of claims notification and settlement.

Review the adequacy of generated obligations. At each reporting date, the Company reviews adequacy of the amount of created insurance provisions less deferred acquisition costs. In the course of the review, current best estimates of all contractual future cash flows as well as related expenses on settlement of losses and administrative expenses are used. If a provision for unearned premium is not sufficient to cover all losses and expenses expected after the reporting date, the Company recognises additional liability, i.e. unexpired risk provision. To measure unexpired risk provision the Company uses historical data and a forecast for the expected levels of losses (including loss adjustment expenses) as well as expenses related to the maintenance of the existing insurance portfolio. Unexpired risk provision is created with regard to the existing risks under insurance contracts, under which the amount of claims and expenses on loss adjustment during the remaining contracts validity period at the reporting date exceeds the provision for unearned premiums related to these contracts less all deferred acquisition costs. Unexpired risk provision is calculated separately by jointly managed lines of business.

The expected insurance claims are calculated considering the events that occurred before the reporting date. Any changes in unexpired risk provision are recognised directly in profit or loss by write-off of deferred acquisition costs and subsequent creation of related provision based on adequacy review of the liabilities.

Contingent assets and liabilities. Contingent assets are not recognised in the statement of financial position, but disclosed when an inflow of related economic benefits is probable. Contingent liabilities are not recognised in the statement of financial position, but disclosed in the financial statements unless it is unlikely that an outflow of resources will be required to settle the liability.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax expense (credit) comprises current tax and deferred tax and are recognised in profit or loss for the year, except if they were to be recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within general and administrative expenses.

Deferred tax assets and liabilities. The amounts that may decrease or increase income tax payable to the budget in future reporting periods are recognised within deferred tax assets and liabilities. Deferred tax liability is the amount of income tax payable to the budget in future reporting periods in respect of taxable temporary differences. Deferred tax asset is the amount of income tax recoverable in future reporting periods in respect of deductible temporary differences and tax losses carried forward not used for reducing income tax.

Deferred tax liabilities are recognised on all taxable differences in the amount equal to the product of the sum of such differences by income tax rates established by Russian law on taxes and levies and effective at the end of the reporting period.

Deferred tax assets are recognised for deductible temporary differences to the extent that is probable that future taxable profits will be available, against which these deductible temporary differences can be utilised. Deferred tax asset is calculated as a product of taxable temporary differences by the income tax rate established by Russian law on taxes and levies and effective at the end of the reporting period. If the Company does not expect sufficient taxable profit that makes it possible to utilise part or the whole of a deferred tax asset, such part or the whole amount of deferred tax is not be recognised. Unrecognised or unrecorded deferred tax asset is reviewed at each reporting date and is to be recognised to the extent that is probable that future taxable profits will be available against which deferred tax asset can be utilised. Deferred tax liabilities and deferred tax assets are not discounted. Deferred tax assets and liabilities are assessed at the end of each reporting period.

5. Significant Accounting Policies (Continued)

Deferred tax asset is recognised for unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which these losses can be utilised before the expiry of the period during which they can be utilised to the extent it is not probable to obtain future taxable profits, which the Company may decrease for tax purposes for unused tax losses carried forward, deferred tax asset is not to be recognised. Deferred tax asset for unused tax losses carried forward for the decrease in income tax is derecognised when they are fully used, do not meet recognition criteria and the period of future tax loss carried forward provided for by the Russian law expires. Deferred tax asset for tax losses carried forward is not to be discounted. Deferred tax asset for tax losses carried forward is assessed at the end of each reporting period.

Uncertain tax positions. The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues.

Income and expense recognition

Premiums from life insurance contracts are recognised as revenue when the insurer's liability arises based on the insurance contract conditions in the amount of payments due from the policyholder for the reporting period in accordance with the payment dates specified in the insurance contract. For contracts with a lump sum premium payment, premiums are recognised when the contract commences. For instalment contracts, premiums are recorded at the date when payments are due.

Non-life insurance premiums. The Company records premiums under the short-term insurance contracts, and under long-term contracts if insurance premium was paid as a lump sum, as revenue at the time of assuming the insurance risk. If the premium under a long-term contract is paid on a deferral basis, then income from such premiums is recorded on an annual basis, on the first day of each underwriting year, in the amount of premiums applicable to such underwriting year. In that case, the date for recognition of income from premiums for the first underwriting year is determined upon assuming the insurance risk.

Reduction of premium written in subsequent periods (under amendments to the signed original contacts, for example) is accounted by debiting of premiums written in current period.

Claims and claims handling expenses. Claims are charged to the statement of profit or loss and other comprehensive income as compensation is paid to policyholders (beneficiaries) or third parties.

Share in paid claims due from reinsurers are measured consistently with the amounts associated with the direct insurance contracts and in accordance with the terms of each reinsurance contract.

Claims handling expenses include costs incurred in connection with organisation of claims handling on insurance contracts. Claims handling expenses include: a) direct expenses associated with handling certain losses b) indirect expenses that cannot be attributed to a specific loss but are associated with organisation of claims handling process.

Direct claims handling expenses include expenses on expert services, court and other expenses. Indirect expenses include payroll costs for the employees engaged in claims settling, expenses associated with payments to non-budget state funds from the salaries of these employees and other expenses.

Acquisition costs and deferred acquisition costs. Acquisition costs represent commission expenses, pre-insurance survey, controlled forms and other direct costs of insurance business acquisition, which vary with and largely depend upon the premium from acquired or renewed insurance contracts. Acquisition costs are recognised at the recognition date of premiums from respective insurance contracts.

Deferred acquisition costs occur on non-life insurance contracts and include commissions to agents (brokers) for conclusion and prolongation of insurance contracts. Deferred acquisition expenses are amortised proportionally within the period of validity of respective insurance contracts in order to ensure that they conform with future cash flows from insurance premiums and disclosed in the statement of financial position within assets.

Acquisition costs are assessed for impairment at each reporting date. When their recoverable value becomes less than their carrying amount, the carrying amount is written off to the recoverable amount. The arising impairment loss is recognised in profit or loss.

5. Significant Accounting Policies (Continued)

At each reporting date, liability adequacy tests are performed to ensure the adequacy of unearned premiums net of deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and cash flows related to claims handling and administrative expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss by writing off deferred acquisition costs and, in case of insufficiency thereof, by establishing the unexpired risk provision.

Reinsurance. The Company cedes reinsurance contracts in the normal course of business. Reinsurance contracts do not relieve the Company from obligations to policy holders. Reinsured assets include receivables from reinsurers on settled claims, including claims handling expenses. The amounts receivable from reinsurers are assessed similarly to calculation of the liabilities on losses under the contracts ceded to reinsurance.

Payables on reinsurance include liabilities of the Company related to the transfer of premiums to reinsurers. Reinsurance receivables and payables are offset where the legal right for this offset exists.

Staff costs and related contributions. Wages, salaries, contributions to state pension and social insurance funds, paid annual leaves, sick leaves, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Company. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Payable bonuses and unused vacations are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of such benefits can be made. Such payables are recorded within “Accounts payable”. Expenses relating to these liabilities are recorded in profit or loss.

Operating leases. Where the Company is a lessee in a lease, which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

The period of the lease is the period for which the lessee signed the lease agreement and within which the agreement may not be cancelled unilaterally by the lessor, plus the period for which the lessee may extend the lease subject to additional payment or without it, if at the beginning of the lease there is an adequate certainty that the lessee intends to exercise such right.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Interest income and expense recognition. Interest income and expense are recorded in profit or loss for the period for all interest instruments on an accrual basis using the effective interest method. This method includes, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Other income and expense items. All other income and expense items are generally recorded on an accrual basis in the reporting period to which they are referred and in the amount of services effectively provided (received).

Fee and commission income. The Company receives commissions for transferring risks to reinsurers. Such commission fee is recorded in profit or loss as a result of insurance activity. Commission income on risks transferred to reinsurance representing the decrease of acquisition costs, decrease relevant unamortised acquisition costs whereby net acquisition costs are capitalised and expensed in proportion to recognised net earned premiums. Amortisation of deferred fee income on the risks transferred to reinsurance is recorded in profit or loss as net acquisition costs.

Functional currency. The functional currency of the Company is the currency of the primary economic environment in which the Company operates. The Company's functional currency is the Russian rouble.

Foreign currency translation. Foreign currency transactions are translated to the Company’s functional currency at the foreign exchange rate effective as of the date of the transaction. Cash assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Profit or loss on cash assets and liabilities denominated in foreign currencies represent the difference between amortised cost in the functional currency at the beginning of the reporting period, adjusted to the amount charged at the effective interest rate and payments during the period, and amortised cost in foreign currency translated to the functional currency at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate effective at the date of the transaction.

5. Significant Accounting Policies (Continued)

The result of revaluation of insurance, investment and other transactions is recorded in the line item "Net income (expense) on changes in the exchange rates".

At 31 December 2018 the official exchange rates used for translating foreign currency balances were: RR 69,4706 for USD 1 (31 December 2017: 57,6002 for USD 1); RR 79,4605 for EUR 1 (31 December 2017: RR 68,8668 for EUR 1).

Presentation of statement of financial position in order of liquidity. The Company does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity.

Amendments of the financial statements after issue. The Company's participants and management have the power to amend the financial statements after issue.

6. Critical Judgements and Accounting Estimates

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the financial statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are subject to regular review. Revisions to accounting estimates are recognised in the reporting period in which the estimates are revised and in any future periods affected.

Information about significant uncertain estimates and critical reasonable judgements in applying accounting policies is described below.

Significant insurance risk. Insurance risk is related to an uncertainty in respect of the following matters at inception of the contract: occurrence of the insured event, date of occurrence of the insured event, and the claim amount in respect of the occurred insured event. Significance of insurance risk is dependent both on the probability of an insured event and the size of its potential effect.

Insurance risk is significant if as a result of an insured event or another event provided for by the contract the Company will have to make significant additional payments, while the significance of additional payments is determined from the perspective of the policyholder.

Significance is determined by comparing net contractual cash flow in case of occurrence of an insured event with net cash flow in case of non-occurrence of the insured event. The compared cash flows include claim handling costs and their measurement, but exclude:

- return of premium upon insurance policy termination;
- lost profit upon contract termination due to occurrence of insured event;
- reimbursement by the reinsurer of reinsurer's share in claims paid.

Cash flows compared for evaluating insurance risk significance for life insurance contracts are calculated taking into account time value of money. For this purpose, cash flows are discounted using the interest rate that the Company expects to receive from investing the premium under the contract. Cash flows should be analysed with due consideration of all scenarios, including insured events related to the risks additional to key risks (riders).

When a decision on the existence of a significant insurance risk is taken the following contractual cash flows calculated at the inception of the contract are analysed:

A. present value of net contractual cash flow upon occurrence of an insured event;

B. present value of net contractual cash flow in case of non-occurrence of the insured event, for which cash flow A was calculated.

6. Critical Judgements and Accounting Estimates (Continued)

Generally, a contract is classified as an insurance contract if there exists a scenario (a combination of insured event, time of occurrence and claim amount) when simultaneously:

- Flow A is more than zero;
- Flow A differs from Flow B by more than 10% of the present value of the premiums under the contract.

If such scenario does not exist, then a life insurance contract is classified as an investment contract and a non-life insurance contract is classified as a service contract (if a non-life insurance contract contains financial risk it is classified as an investment contract).

A contract is also classified as an insurance contract when simultaneously:

- there is a direct link between the return on the contract and the price on certain assets that the insurance premiums are invested under the contract;
- there is a risk of decrease in original cost of assets that the received insurance premiums are invested under the agreement;
- there are guarantees from the insurer in the event of death of the insured person to compensate loss on decrease in the original cost of such assets, and such loss may exceed 10% of the insurance premium paid.

Significance of insurance risk associated with non-standard insurance contracts that require separate underwriting is assessed individually for each contract.

Simplified criteria for classification of typical contracts into insurance and investment contracts have been introduced for typical contracts, concluded under the terms of insurance programs developed by the Company that have the same set of insured risks and the same terms of payment of insurance premium.

Key actuarial assumptions underlying the estimate of payables under life insurance contracts. To calculate life insurance provision, actuarial basis is used which includes discount rates (rate of return) and tables of mortality and morbidity, which coincide with the parameters used for tariffication of products. The tables of mortality, disability, probability of diagnosticating critical illnesses are determined based on the Company's statistics, the data of the Federal State Statistics Service, statistics of partner reinsurance companies, public sources and expert estimations. To account for deferred acquisition costs zillmerisation is used. To correctly account for the amount of the Company's future expenses on insurance contract servicing, assumptions received based on the analysis of the Company's total expenses on the portfolio and distribution of expenses by lines of business are used. The level of expenses per policy is set depending on the insurance program.

The Company regularly reviews adequacy of the provisions created, the purpose of which is to calculate the best estimate of the present value of future cash flows (claims and cancellations, expenses, premiums). The selected parameters of the actuarial basis ensure that the created provisions exceed the best estimates of the liabilities within the framework of the review of created liabilities adequacy by 6%, therefore, the actuarial basis may be considered conservative.

Key actuarial assumptions underlying the estimate of insurance liabilities under non-life insurance contracts. In estimating liabilities under non-life insurance contracts, management used the assumption that the portfolio is homogeneous by segments of actuarial estimation and the Company's operations are stable to the extent of claims settlement and administration of contracts of direct insurance, co-insurance, inward and outward reinsurance.

Recognition of deferred tax asset. The recognised deferred tax asset represents income tax recoverable through future deductions from taxable profits, and is recorded in the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results. Achievement of the Company management's plan for offsetting deferred income asset against future taxable profits directly depends on the Company's ability to continue as a going concern and meet its liabilities in the foreseeable future.

Financial assets held to maturity. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. If the Company fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount of investments close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would, therefore, be measured at fair value rather than amortised cost. Refer to Note 29 for the fair value of financial assets held to maturity.

(in thousands of Russian Roubles)

7. Cash and Cash Equivalents

	31 December 2018	31 December 2017
Cash on hand	1 234	890
Settlement accounts with banks		
- accounts denominated in Russian Roubles	31 698	126 606
- foreign currency accounts	14 904	11 965
Brokerage and investment accounts	148 075	604 297
Deposits classified as cash	138 032	419 991
Total cash and cash equivalents	**333 943**	**1 163 749**

As at 31 December 2018 and 31 December 2017 cash and cash equivalents were not pledged as collateral under the Company's obligations, not impaired or past due.

As at 31 December 2018 cash and cash equivalents include account balances with three financial institutions constituting 90% of the total amount of cash and cash equivalents (at 31 December 2017: 87%).

As at 31 December 2018 annual interest rate on rouble deposit with the bank, classified as cash and cash equivalents is 5,55% (at 31 December 2017: 5,6%).

The fair value of cash and cash equivalents approximate their carrying amount due to their short-term nature. Information on estimated fair value of cash and cash equivalents is disclosed in Note 33.

The analysis by currencies and maturities of cash and cash equivalents as well as the information on credit quality are presented in Note 29.

8. Deposits with Banks

	31 December 2018	31 December 2017
Accounts denominated in Russian roubles		
- with maturity of less than 3 months	657 216	1 635 850
- with maturity of 3 to 6 months	213 752	392 883
- with maturity of 6 months to 1 year	289 822	630 077
- with maturity of 1 to 5 years	84 311	473 629
Accounts denominated in foreign currency		
- with maturity of less than 3 months	39 896	-
Total deposits with banks	**1 284 997**	**3 132 439**

As at 31 December 2018 deposits with banks include account balances with three Russian banks totalling RR 1 245 102 thousand or 97% of the total amount of deposits with banks (31 December 2017: account balances with three Russian banks totalling RR 2 418 035 thousand or 77% of the total amount deposits with banks).

As at 31 December 2018 and 31 December 2017, all deposits with banks are neither past due nor impaired.

As at 31 December 2018 the annual rouble deposit interest rate ranged from 6,3% to 10,05%, USD deposit interest rate - 2,54% (at 31 December 2017: the annual rouble deposit interest rate ranged from 5,6% to 14,15%).

All deposits with banks have fixed interest rates.

As at 31 December 2018 and 31 December 2017, the carrying amount of deposits with banks approximates their fair value.

The analysis by currencies and maturities as well as the information on credit quality of deposits with banks are presented in Note 29.

(in thousands of Russian Roubles)

9. Available-for-Sale Financial Instruments

	31 December 2018	31 December 2017
Denominated in Russian roubles		
- Government bonds	7 541 498	7 674 466
- Corporate bonds	2 286 930	942 528
- Municipal bonds	80 630	61 699
- Units of investment funds	14 838	12 476
Denominated in US dollars		
- Government bonds	3 935 871	3 184 817
- Corporate bonds	2 675 372	2 249 552
Denominated in Euro		
- Corporate bonds	660 831	644 652
Total available-for-sale financial instruments	**17 195 970**	**14 770 190**

Government bonds denominated in Russian roubles represent bonds issued by the Russian Finance Ministry, maturing, as of 31 December 2018, in the period from 2019 to 2036 (31 December 2017: from 2018 to 2036), with coupon rate of 2 to 9% p.a. (31 December 2017: 2 to 10% p.a.) and with yield to maturity of 8% p.a. (31 December 2017: 7% p.a.).

Corporate bonds denominated in Russian roubles represent bonds issued by the Russian companies and banks, maturing, as of 31 December 2018, in the period from 2019 to 2052 (31 December 2017: 2019 to 2032), with coupon rate of 7 to 12% p.a. (31 December 2017: 8 to 12% p.a.) and with yield to maturity of 8% p.a. (31 December 2017: 8% p.a.).

Municipal bonds denominated in Russian roubles represent bonds issued by municipal financial institution, maturing, as of 31 December 2018, in the period from 2020 to 2025 (31 December 2017: from 2018 to 2022), with coupon rate of 6 to 8% p.a. (31 December 2017: 6 to 11% p.a.) and with yield to maturity of 8% p.a. (31 December 2017: 7% p.a.).

Government bonds denominated in US dollars represent eurobonds issued by the Russian Finance Ministry, maturing, as of 31 December 2018, in the period from 2020 to 2047 (31 December 2017: from 2020 to 2030), with coupon rate of 4 to 13% p.a. (31 December 2017: 5 to 13% p.a.) and with yield to maturity of 1% p.a. (31 December 2017: 3% p.a.).

Corporate bonds denominated in US dollars represent eurobonds issued by the Russian companies operating in banking and oil mining industries, maturing, as of 31 December 2018, in the period from 2019 to 2034 (31 December 2017: 2018 to 2034), with coupon rate of 4 to 9% p.a. (31 December 2017: 4 to 9% p.a.) and with yield to maturity of 5% p.a. (31 December 2017: 4% p.a.).

Corporate bonds denominated in euro represent eurobonds issued by Russian companies including those operating in banking and oil mining industries, maturing, as of 31 December 2018, in the period from 2019 to 2026 (31 December 2017: 2018 to 2025), with coupon rate of 3 to 4% p.a. (31 December 2017: 3 to 7% p.a.) and with yield to maturity of 2% p.a. (31 December 2017: 1% p.a.).

The primary factor that the Company considers in determining whether a debt security is impaired is its overdue status. As at 31 December 2018 and 31 December 2017, the portfolio of available-for-sale securities contained no impaired debt securities.

Available-for-sale financial instruments have both fixed and floating interest rates.

Information on securities credit quality is presented in Note 29.

Changes in fair value of available-for-sale securities are recognised in other comprehensive income. The analyses of revaluation provision for available-for-sale financial instruments at 31 December 2017 and 31 December 2018 is presented below:

	31 December 2018	31 December 2017
Denominated in Russian Roubles		
- Government bonds	(173 040)	107 072
- Corporate bonds	(56 342)	32 550
- Municipal bonds	(350)	1 319
- Units of investment funds	7 289	4 926
Denominated in US dollars		
- Corporate bonds	36 415	248 623
- Government bonds	39 364	138 007
Denominated in Euro		
- Corporate bonds	1 751	21 362
Total revaluation provision for available-for-sale financial instruments	**(144 913)**	**553 859**

(in thousands of Russian Roubles)

10. Held-to-Maturity Financial Instruments

	31 December 2018	31 December 2017
Denominated in US dollars		
- Government bonds	52 017	49 211
- Corporate bonds	36 605	30 414
Total held-to-maturity financial instruments	**88 622**	**79 625**

Government bonds denominated in US dollars represent eurobonds issued by the Russian Finance Ministry. Aa at 31 December 2018 and 31 December 2017, the maturity periods are up to 2030 and coupon rate constitutes 7,5% p.a. (31 December 2017: 7,5% p.a.).

Corporate bonds denominated in US dollars represent securities issued by the large US corporation Federal Home Loan Mortgage Corporation. Aa at 31 December 2018 the maturity periods are up to 2029 (31 December 2017: up to 2029), coupon rate constitutes 7% p.a. (31 December 2017: 6,8% p.a.).

All interest bearing financial instruments held to maturity have fixed interest rates.

Held to maturity financial assets are neither past due, nor collateralised, nor pledged.

The analysis by currencies and maturities as well as the information on credit quality of financial assets held to maturity are presented in Note 29.

The information on the fair value of financial instruments held to maturity is presented in Note 33.

11. Financial Instruments at Fair Value through Profit or Loss

	31 December 2018	31 December 2017
Denominated in Russian roubles		
- structured financial instruments	25 907	75 757
Denominated in US dollars		
- structured financial instruments	70 642	85 534
- shares of other companies	15 704	15 122
- units of investment funds	3 658	3 631
Total financial instruments at fair value through profit or loss for the period	**115 911**	**180 044**

Structured financial instruments denominated in Russian roubles represent structured notes, issued by the bank BNP Paribas, with a number of indices as underlying assets. As at 31 December 2018, their maturity period falls on 2019 (31 December 2017: from 2018 to 2019).

Structured financial instruments denominated in US dollars represent structured notes, issued by COMMERZBANK AG and Citigroup Inc., which have shares of the leading companies in pharmaceutical and other markets as underlying assets. As at 31 December 2018 maturity period ranged from 2019 to 2024 (31 December 2017: from 2018 to 2022).

Financial instruments at fair value through profit or loss are neither past due, nor collateralised, nor pledged.

Financial instruments at fair value through profit or loss are recorded at fair value, which also reflects a write off due to credit risk. As these assets are carried at their fair values based on observable market data, the Company does not analyse or monitor impairment indicators.

The analysis by credit quality, currencies and maturities of financial assets at fair value through profit or loss is presented in Note 29.

(in thousands of Russian Roubles)

12. Accounts Receivable

	31 December 2018	31 December 2017
Receivables arising from direct insurance transactions	2 443 437	1 902 321
Reinsurers' receivables for insurance claims	544 819	72 312
Other receivables	3 447	17 160
Provision for impairment of receivables	(134 031)	(69 432)
Total receivables	**2 857 672**	**1 922 361**

As at 31 December 2018 and 31 December 2017, the carrying amount of receivables approximates their fair value.

As at 31 December 2018 and 31 December 2017, receivables from any counterparty did not exceed 5% of equity as at the end of the reporting period.

The analysis by currencies and maturities as well as the information on credit quality and the analysis of past due but not impaired receivables are presented in Note 29.

Receivables overdue for less than a month and for which no provision for impairment has been created constitute RR 154 064 thousand (2017: RR 181 088 thousand).

Receivables overdue for more than a month constitute RR 655 726 thousand (2017: RR 186 415 thousand). Provision for impairment of receivables constitutes RR 109 505 thousand (2017: RR 69 432 thousand).

Movements in the provision for impairment of receivables are as follows:

	2018	2017
Provision for impairment as at 1 January 2018	69 432	74 447
Net provision for impairment	64 599	5 890
Write-off against provision	-	(10 905)
Provision for impairment as at 31 December 2018	**134 031**	**69 432**

13. Other Prepayments

	31 December 2018	31 December 2017
Prepayments for medical checks of clients	228 586	171 483
Prepayments for IT services	4 422	7 594
Lease prepayments	3 157	1 082
Prepayments for office equipment and stationery	1 156	1 202
Other prepayments	19 022	16 926
Total other prepayments	**256 343**	**198 287**

14. Investments in Associates

In June 2017, Company management decided to reorganise its subsidiary OJSC My Clinic by merging it with Medexpress, the latter controlled by JSC IC Allianz. Consolidation of these companies has improved the efficiency of assets utilisation, expediency in corporate governance and competitiveness in the market, and to cut costs. As a result of the merger, Medexpress acquired all rights and obligations of OJSC My Clinic.

The merger agreement was signed in June 2017, followed by conversion of My Clinic shares into Medexpress shares. As a result, the Company has lost control over its subsidiary OJSC My Clinic and received the share of 41,62% in the newly reorganised entity Medexpress.

(in thousands of Russian Roubles)

14. Investments in Associates (Continued)

The table below contains a summary of the associate's financial information for twelve months ended on 31 December 2018:

	As at 31 December 2018 and for 12 months then ended
Assets and liabilities of associate	
Total assets	1 323 641
Total liabilities	(622 259)
Net identifiable assets and liabilities	**701 382**
Interest in associate	41,62%
Carrying amount of investments in associate	**291 915**
Financial performance of associate for the year ended 31 December 2018	
Revenue for the period	940 978
Profit for the period	(8 067)
Other comprehensive loss for the period	(10 605)
Company's interest in the financial performance for the year ended 31 December 2018	
Profit for the period	(3 357)
Other comprehensive loss for the period	(4 414)

15. Premises and Equipment and Intangible Assets

	Buildings and facilities	Office and computer equipment	Intangible assets	Total intangible assets and premises and equipment
Cost				
At 1 January 2017	**397 500**	**96 430**	**110 188**	**604 118**
Additions	-	35 254	79 331	114 585
Disposal of subsidiary	(397 500)	(69 148)	(5 169)	(471 817)
Disposals	-	(803)	-	(803)
At 31 December 2017	**-**	**61 733**	**184 350**	**246 083**
Acquisitions	-	30 060	20 232	50 292
Disposals	-	(824)	(46 038)	(46 862)
At 31 December 2018	**-**	**90 969**	**158 544**	**249 513**
Accumulated depreciation and amortisation				
At 1 January 2017	**1 085**	**74 947**	**41 366**	**117 398**
Depreciation charge	5 901	23 372	33 282	62 555
Disposal of subsidiary	(6 986)	(61 800)	(4 417)	(73 203)
Disposals	-	(423)	-	(423)
At 31 December 2017	**-**	**36 096**	**70 231**	**106 327**
Depreciation charge	-	14 499	59 908	74 407
Disposals	-	(824)	(32 482)	(33 306)
At 31 December 2018	**-**	**49 771**	**97 657**	**147 428**
Carrying amount				
At 1 January 2017	396 415	21 483	68 822	**486 720**
At 31 December 2017	-	25 637	114 119	**139 756**
At 31 December 2018	-	41 198	60 887	**102 085**

As at 31 December 2018 and 31 December 2017, there are no intangible assets that have an indefinite useful life.

As at 31 December 2018 and 31 December 2017, the Company's premises and equipment were neither pledged nor held under finance leases.

The Company management believes that there are no indications of impairment of intangible assets and premises and equipment as at 31 December 2018 and 31 December 2017.

(in thousands of Russian Roubles)

16. Life Insurance Provision

	2018	2017
Gross life insurance provision	14 641 677	14 346 087
Reinsurers' share of life insurance provision	(22 131)	(20 010)
Life insurance provision, net of reinsurers' share	**14 619 546**	**14 326 077**

Movements in life insurance provision are presented in the table below:

	2018	2017
Life insurance provision, net of reinsurers' share as at 1 January	**14 326 077**	**14 855 244**
Change in life insurance provision, gross	(984 709)	(296 921)
Change in reinsurers' share of provision	(2 121)	(44)
Effect of foreign exchange rate changes	1 280 299	(232 202)
Life insurance provision net of reinsurers' share as at 31 December	**14 619 546**	**14 326 077**

Analysis changes in life insurance provision, net of reinsurers' share for 2018 and 2017 are presented in the table below:

	2018	2017
Life insurance provision at the beginning of the period	**14 346 087**	**14 875 210**
Change in provision due to accrual of premium	3 218 980	1 923 864
Change in provision due to payments made	(4 063 635)	(2 570 790)
Change in provision due to changes in the estimates of additional income	(120 227)	190 043
Change in provision due to foreign currency revaluation	1 286 100	(234 983)
Other changes	(25 628)	162 743
Life insurance provision at the end of the period	**14 641 677**	**14 346 087**

Sensitivity analysis is carried out in respect of the variables that have the greater impact on the amount of life insurance provision and contain the element of professional judgement. As at 31 December 2018 and 2017, such variables included discount rate, probability of mortality and the level of cancellations. The impact on profit before tax and on the equity on changes in these assumptions regarding life insurance, annuities and pensions is presented in the table below.

	2018		2017	
Assumptions	**Effect on profit before tax**	**Impact on equity**	**Effect on profit before tax**	**Impact on equity**
10% increase in the discount rate	153 395	122 716	135 216	108 173
10% decrease in the discount rate	(164 408)	(131 526)	(144 432)	(115 546)
Increase in probability of mortality by 15%	31 618	25 295	24 736	19 789
Decrease in probability of mortality by 15%	(41 717)	(33 374)	(32 994)	(26 395)
Increase in the level of cancellations by 20%	189 280	151 424	122 632	98 106
Decrease in the level of cancellations by 20%	(217 873)	(174 299)	(142 075)	(113 660)

17. Provision for Unearned Premiums

Movements in provision for unearned premiums throughout 2018 and 2017 are presented below:

	2018			2017		
	Total amount	**Reinsurers' share**	**Net amount**	**Total amount**	**Reinsurers' share**	**Net amount**
Provision for unearned premiums at 1 January	**2 291 786**	**(132 112)**	**2 159 674**	**2 304 157**	**(99 716)**	**2 204 441**
Change in provision during the year	435 582	7 535	443 117	(12 371)	(32 396)	(44 767)
Effect of foreign exchange rate changes	6 943	-	6 943	-	-	-
Provision for unearned premiums at 31 December	**2 734 311**	**(124 577)**	**2 609 734**	**2 291 786**	**(132 112)**	**2 159 674**

(in thousands of Russian Roubles)

18. Loss Provision

The analysis of loss provision as at 31 December 2018 and 31 December 2017 is presented below:

	2018			2017		
	Voluntary medical insurance	**Life insurance**	**Total**	**Voluntary medical insurance**	**Life insurance**	**Total**
Provision for losses, gross	808 996	41 603	850 599	563 316	35 148	598 464
Reinsurers' share of loss provision	(176 489)	(13 095)	(189 584)	(46 454)	(7 728)	(54 182)
Loss provision, net of reinsurers' share	**632 507**	**28 508**	**661 015**	**516 862**	**27 420**	**544 282**

Movements in the provision for losses during 2018 and 2017 are as follows:

	2018	**2017**
Loss provision net of reinsurers' share as at 1 January	**544 282**	**560 060**
Increase in provision, gross	250 665	2 336
Change in reinsurers' share of provision	(135 403)	(17 774)
Effect of foreign exchange rate changes	1 471	(340)
Loss provision net of reinsurers' share as at 31 December	**661 015**	**544 282**

Assumptions and sensitivity level used in estimation of loss provision

The process of defining assumptions. Assumptions applied in assessment of insurance assets and liabilities are aimed at creating provisions, sufficient to cover liabilities under insurance contracts to the foreseeable extent. However, taking into account the uncertainty in creation of provision for outstanding claims, it is probable that the actual result will differ from the initially determined liabilities.

As of the reporting date, the amount of loss provisions represents the ultimate amount of expected claims under all losses arising from reported or unreported insured events, which occurred before the reporting date, and related additional claims handling expenses less amounts already paid. Loss provision is not discounted for accounting for time value of money.

When assessing the amount of outstanding claims (reported and unreported), the Company applies methods, representing a combination of assessments that use loss ratio (where loss ratio is a ratio of the final amount of claims and the amount of premiums earned during a certain financial year in respect of these claims), and assessments based on actual historical data on insurance claims using a formula where with time the value of actual historical data increases.

Assessment of IBNR is subject to greater uncertainty than the assessment of the cost of settlement of already reported claims for which there is information on insured event. Damage on unreported losses may not be detected by a policy holder during several years after the occurrence of the insured event that caused losses.

When evaluating loss provision the Company takes into account any information received from loss adjusters and the information on the cost of settlement of similar losses in previous periods. Significant losses are assessed on an individual basis or within a separate portfolio in order to take into account the effect of potential deviations in their development and to exclude their impact on the rest of the portfolio.

Where convenient the Company applies several valuation methods for the required level of provisions and this provides for better understanding of regularities regarding the development of future losses. Valuation using various methods also helps to obtain a range of potential values. The most suitable valuation method is selected taking into account the specifics of the portfolio and the range of development of losses for each analysed year.

Assumptions. Assessment of the initial loss ratio is an assumption that has the greatest impact on valuation of loss provision. Assessment of the initial loss ratio is based on historical data adjusted to such factors as change in the amount of insurance premium, expected market activity and increase in the number of reported losses for the previous periods. In addition, when determining loss provision and planning future cash flows, a number of parameters that may significantly influence the size of a specific claim is assessed (for example, frequency of claims, risks under insurance contracts, i.e. accidental death, recurring events, recovery period, the period between the occurrence of an insured event and its settlement).

Sensitivity analysis. Management believes that due to short-term nature of the insured risks assumed by the Company, the dynamics of the Company's portfolio is generally sensitive to the changes in expectations regarding loss ratio. The Company regularly adjusts its insurance tariffs based on the analysis of the latest changes in these indicators in order to take into account emerging trends.

(in thousands of Russian Roubles)

18. Loss Provision (Continued)

The table below presents the effect of changes in expected loss ratios related to voluntary medical insurance related to the loss period that coincides with the reporting period, profit or loss before tax and equity before reinsurance. The listed lines of business are more sensitive to the changes in assumptions on loss provisions than others. The impact of reinsurance on profit or loss is not significant.

	2018	
Voluntary medical insurance	**Impact on profit or loss before tax**	**Impact on equity**
Increase in development coefficient by 10%	(138 783)	(111 026)
Decrease in development coefficient by 10%	138 783	111 026

Claims development. The information on claims development is disclosed in order to illustrate the insurance risk inherent in the Company's transactions. The table shows the claims paid grouped by years in which insured events occurred and the amount of provisions established for these claims. At the top of the table, there is an overview of estimated accumulated losses and changes in loss estimates at the end of subsequent claim reporting periods or periods of insured event. Estimates increase or decrease after settlement of claims or receipt of information about the frequency and significance of outstanding claims. At the bottom of the table, there is a reconciliation between aggregate provisions reported in the consolidated statement of financial position and accumulated loss estimates.

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past periods on current unpaid loss balances. The Company believes that the estimate of total outstanding claims at 31 December 2018 is adequate. However, due to the inherent uncertainties in the provisioning process, it cannot be assured that such balances will ultimately prove to be adequate to cover losses.

Analysis of claims development (gross) - Voluntary medical insurance

Estimate of cumulative claims	2014	2015	2016	2017	2018	Total
At the end of insured event year	4 924 326	4 602 379	4 194 639	4 387 974	5 108 506	23 217 824
- in one year	4 970 730	4 584 493	4 127 313	4 391 764	-	18 074 300
- in two years	4 970 211	4 584 733	4 144 442	-	-	13 699 386
- in three years	4 970 119	4 585 670	-	-	-	9 555 789
- in four years	4 970 119	-	-	-	-	4 970 119
Estimate of cumulative claims	4 970 119	4 585 670	4 144 442	4 391 764	5 108 506	23 200 500
Cumulative claims at the end of the year	4 970 119	4 585 670	4 127 553	4 355 146	4 366 431	22 404 919
Gross outstanding claims liabilities, gross	**-**	**-**	**16 889**	**36 618**	**742 074**	**795 581**

19. Loans Received

	31 December 2018	31 December 2017
Loans received from JSC IC Allianz	214 121	807 117
Total loans received	**214 121**	**807 117**

The interest rate on loans as at 31 December 2018 was 8,26% (31 December 2017: 7,87% – 9,03%).

Information about transactions with related parties is presented in Note 34.

(in thousands of Russian Roubles)

20. Accounts Payable

	2018	2017
Financial payables, including:		
Payables arising from ceded reinsurance	681 104	160 243
Prepayments of insurance premiums	257 965	272 085
Payables for agency fees	178 517	155 984
Total payables arising from insurance transactions	**1 117 586**	**588 312**
Outsourcing financial, information and consulting services to related parties	120 773	83 155
Payables for software maintenance services	37 128	28 673
Other payables	19 972	11 800
Total financial payables	**1 295 459**	**711 940**
Non-financial payables, including:		
Payables to employees	358 845	315 510
Provision for reorganisation	45 442	82 023
Payables under social insurance contributions	44 010	48 606
Other payables	46 092	45 570
Total non-financial payables	**494 389**	**491 709**
Total payables	**1 789 848**	**1 203 649**

Aa at 31 December 2018 and 31 December 2017, the Company had no significant concentrations of payables.

Fair value of the payables approximates their carrying value due to their short-term nature. The estimated fair value of payables and comparison to its carrying amount is disclosed in Note 33.

The information on payables by currencies is presented in Note 29.

Information about transactions with related parties is presented in Note 34.

21. Gross Premiums Written and Premiums Ceded

The analysis of insurance premiums by lines of business is presented below:

	2018			2017		
	Voluntary medical insurance	Life insurance	Total	Voluntary medical insurance	Life insurance	Total
Gross premiums written	7 790 606	3 452 304	11 242 910	6 620 443	2 139 425	8 759 868
Premiums ceded	(739 054)	(85 168)	(824 222)	(582 398)	(87 512)	(669 910)
Net premiums written	**7 051 552**	**3 367 136**	**10 418 688**	**6 038 045**	**2 051 913**	**8 089 958**

The total amount of insurance premium from life insurance transactions are mainly represented by the premiums of the two lines of business: investment life insurance in the amount of RR 1 251 103 thousand (2017: RR 411 501 thousand) and combined life insurance in the amount of RR 1 337 131 thousand. (2017: RR 928 047 thousand).

The total amount of insurance premiums from non-life insurance transactions is presented mainly by premiums from voluntary medical insurance in the amount of RR 7 781 296 thousand (2017: RR 6 614 319 thousand).

22. Gross Claims Paid and Reinsurer`s Share in Insurance Claims

The analysis of insurance claims by lines of business is presented below:

	2018			2017		
	Voluntary medical insurance	Life insurance	Total	Voluntary medical insurance	Life insurance	Total
Gross claims paid	5 157 721	3 950 685	9 108 406	4 577 793	2 495 423	7 073 216
Reinsurers’ share in insurance claims	(528 518)	(21 649)	(550 167)	(357 484)	(24 488)	(381 972)
The total amount of claims net of reinsurers’ share in insurance claims	**4 629 203**	**3 929 036**	**8 558 239**	**4 220 309**	**2 470 935**	**6 691 244**

(in thousands of Russian Roubles)

23. Claims Handling Expenses

	2018	2017
Claims handling expenses		
Salaries and bonuses	246 135	247 733
Administrative expenses	45 909	7 010
Information and consulting services	90 828	96 182
Social security and similar expenses	59 392	56 629
Lease	20 681	15 898
Telecommunications expenses	19 902	24 390
Other expenses	5 112	8 075
Total claims handling expenses	**487 959**	**455 917**

24. Acquisition Costs

	2018	2017
Acquisition costs		
Brokerage and agents commission	837 334	493 412
Salaries and bonuses	438 055	405 312
Social security and similar expenses	85 432	91 258
Consulting and legal services	47 368	66 989
Lease	36 674	62 812
Administrative expenses	34 973	41 574
Advertising and marketing	11 415	5 225
Other expenses	3 816	17 562
Total acquisition costs	**1 495 067**	**1 184 144**
Less commission income on reinsurance transactions	(138 584)	(96 945)
Change in deferred acquisition costs, net	(227 200)	(86 628)
Acquisition costs, net	**1 129 283**	**1 000 571**

25. Deferred Acquisition Costs

Change in deferred acquisition costs for 2018 and 2017 is presented below:

	2018	2017
Deferred acquisition costs as at 1 January	**696 802**	**619 592**
Change in deferred acquisition costs	226 129	93 197
Change in deferred commission income on reinsurance transactions	1 071	(6 569)
Change in deferred acquisition costs for the year, net	**227 200**	**86 628**
Effect of foreign exchange rate changes	61 876	(9 418)
Deferred acquisition costs as at 31 December	**985 878**	**696 802**

26. Operating Expenses

	2018	2017
Salaries and bonuses	207 276	326 105
Information and consulting services	171 456	107 608
Social security and similar expenses	91 783	81 988
Lease	38 951	38 902
Depreciation	30 404	33 076
Administrative expenses	25 662	25 569
Telecommunications expenses	12 746	8 872
Business trip expenses	3 843	2 490
Other expenses	6 153	8 693
Total operating expenses	**588 274**	**633 303**

(in thousands of Russian Roubles)

27. Interest Income

	2018	2017
Available-for-sale financial instruments	1 069 872	984 567
Deposits with banks	178 822	249 028
Held-to-maturity financial instruments	9 854	17 963
Cash and cash equivalents	5 963	5 917
Total interest income	**1 264 511**	**1 257 475**

28. Income Tax

Income tax expense comprises the following:

	2018	2017
Current income tax expense	111 558	144 699
Deferred tax expense	187 274	120 674
Total income tax expense for the year from continuing operations	**298 832**	**265 373**
Deferred income tax from discontinued operations	-	11 792
Total income tax expense for the year	**298 832**	**277 165**

In 2018 and 2017, income tax rate applicable to the majority of the Company's income comprises 20% except for the interest rate on government and municipal bonds taxable at 15%.

Reconciliation between theoretical and actual income tax expense is provided below:

	2018	2017
Profit before tax	**1 089 129**	**870 760**
Theoretical income tax expense at the applicable statutory tax rate of 20%	217 826	174 152
Non-deductible expenses (revenues) including:		
- income on government and municipal bonds taxed at a different rate (15%)	(29 620)	(27 004)
- non-deductible expenses	110 626	118 225
Total income tax expense	**298 832**	**265 373**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences that are calculated as differences between the carrying amount of some assets and liabilities for financial reporting purposes and their tax bases. In 2018 and 2017, change in temporary differences influences the total amount of tax at 20% except for the interest income on government and municipal securities that are taxed at 15%.

Net deferred tax claims are tax income that may be received in the future when taxable income is generated and are recorded as an asset in the statement of financial position. Deferred tax claims for tax loss are only recognised to the extent it is probable to offset tax loss against expected taxable profit in the future.

(in thousands of Russian Roubles)

28. Income Tax (Continued)

Deferred tax assets and liabilities at the respective reporting dates consisted of the following:

	At 1 January 2017	Disposal of subsidiary on 30 November 2017	Recorded in profit or loss	Recorded in other comprehensive income	31 December 2017	Recorded in profit or loss	Recorded in other comprehensive income	At 31 December 2018
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards								
Tax loss carry forwards	251 883	-	(112 309)	-	139 574	(59 385)	-	80 189
Receivables, payables and prepayments	68 910	-	36 867	-	105 777	49 787	-	155 564
Life insurance provision	227 391	-	(95 700)	-	131 691	56 293	-	187 984
Premises and equipment and intangible assets	(5 796)	21 925	(12 452)	-	3 677	1 567	-	5 244
Other	-	-	54 945	(199)	54 746	(54 746)	432	432
Deferred tax asset prior to offsetting against deferred tax liabilities	**542 388**	**21 925**	**(128 649)**	**(199)**	**435 465**	**(6 484)**	**432**	**429 413**
Tax effect of taxable temporary differences								
Financial instruments	(329 480)	-	(80 452)	(59 814)	(469 746)	(111 096)	174 852	(405 990)
Deferred acquisition costs	(123 918)	-	(15 442)	-	(139 360)	(57 816)	-	(197 176)
Loss provision	(83 459)	-	79 139	-	(4 320)	(11 878)	-	(16 198)
Provision for unearned premiums	(12 938)	-	12 938	-	-	-	-	-
Total deferred tax liability	**(549 795)**	**-**	**(3 817)**	**(59 814)**	**(613 426)**	**(180 790)**	**174 852**	**(619 364)**
Total net deferred tax liabilities	**(7 407)**	**21 925**	**(132 466)**	**(60 013)**	**(177 961)**	**(187 274)**	**175 284**	**(189 951)**

29. Risk Management

Risk management is fundamental to the Company's business and it is an essential element of its operations. Company management considers risk management and risk control to be a significant aspect of the governance and operating process, integrating such functions into the corporate structure on a continuous basis. The basic principles of risk management in the Company are as follows:

- Promoting high-risk management culture backed by stable risk management processes.
- Consistent, unified application of the Company's risk capital model to protect and efficiently manage its capital.
- Taking into account risk and capital management requirements in decision-making process.

The indicated principles ensure timely identification, analysis and assessment of the Company's risks. The Company's propensity to take risks (risk appetite) is defined in its Risk Management Strategy and appropriate system of limits. Current risk monitoring and reporting allow to identify deviations from the approved Strategy at early stages, helping to take quick actions and identify new emerging risks.

Internal control policies and procedures. In order to protect the interests of the Company's participants and clients, ensure appropriate level of reliability corresponding to the nature and scale of the Company's transactions, ensure efficient risk management, ensure efficient and effective financial and business operations, ensure efficient asset management, equity (capital) management, insurance provisions and other liabilities, ensure accuracy, completeness, objectivity and timeliness of reporting, ensure employees comply with ethical norms, principles of professionalism and competency, anti-money laundering procedures and financing of terrorism prevention and comply with effective legislation, the Company has an internal control system, which represents a combination of internal control bodies and areas:

- General Meeting of the Company's Participants;
- Board of Directors;
- General Director;
- Management Board;
- Directors of branches (their deputies);
- Managers of the Company's structural divisions;
- Audit Commission;
- Chief Accountant (their deputies);
- Department for Internal Control and Coordination of Corporate and Regulatory Procedures;
- A corporate officer responsible for compliance with internal control rules and their implementation programs developed in accordance with the Russian law on anti-money laundering and counter-terrorism financing;
- Actuary;
- Risk Management Center;
- Financial Planning and Control Center;
- Security Service;
- Legal Center;
- Committees and Commissions, created within the Company;
- Internal Audit Department.

The Company's governing bodies perform control functions within their competences in accordance with the Charter. The Board of Directors and the Management Board are responsible for developing, applying and maintaining internal controls in the Company that are consistent with the nature and scale of transactions.

The Company's constituent documents and internal organisational and administrative documents effective as at 31 December 2018 were approved in accordance with the Law and set powers of the persons, exercising internal control in the Company.

When performing job responsibilities, managers of the Company's structural divisions are responsible for compliance with legal requirements as well as professional ethics, internal documents that define the policy and regulate the Company's activities.

(in thousands of Russian Roubles)

29. Risk Management (Continued)

For effective internal control system, ongoing control of its quality and feedback are required. Quality control of the existing internal control system, consistency control of the control procedures, performed by the governing bodies and structural divisions, with the goals of control, legislative requirements and internal regulations are carried out when performing job responsibilities by the following employees and Company divisions: Chief Accountant, Internal Audit Department and Coordination of Corporate and Regulatory Procedures, a designated corporate officer, Department for Actuarial Calculations, Risk Management Center, Financial Planning and Control Center, Security Service, Legal Center, Committees and Commissions and Intern Audit Department.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Company's internal controls and periodically implements additional controls or modifies existing controls as necessary.

The Company developed a system of standards, policies and procedures to ensure effective transactions and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including independent authorisation of transactions;
- requirements for recording, reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced by the Company, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans for business recovery;
- training and professional development;
- compliance with ethical and business standards;
- risk mitigation, including insurance where effective.

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of transactions are automated and the Company applies a system of automated controls.

Insurance risk

The risk under an insurance contract is the risk of an insured event associated with uncertainty of the amount and timing of any resulting claim. The principal risk under such contracts is that the actual claims and expenses will exceed the carrying amount of insurance provisions. The insurance risk depends on the frequency of claims, severity of claims, the fact that actual benefits paid can exceed the original estimates and the influence of subsequent change in the initial estimate of provision.

Diversification of insurance portfolio allows to reduce the level of volatility of the result. Underwriting strategy, aimed at careful selection of the accepted risks, as well as reinsurance are applied to manage the level of exposure. The Company sets limits by type and scale of accepted risks, which the management controls on an ongoing basis.

The information on concentration of liabilities under life insurance contracts by insurance products as at 31 December 2018 and 31 December 2017 is presented below:

	2018		**2017**	
	Life insurance provision	**Reinsurers' share in life insurance provision**	**Life insurance provision**	**Reinsurers' share in life insurance provision**
Endowment life insurance	5 660 662	5 883	4 682 791	6 882
Investment life insurance	5 016 626	105	6 552 453	167
Annuity life insurance / Temporary annuity insurance	3 389 934	-	2 692 123	-
Risk life insurance	149 932	9 014	78 615	5 613
Credit life insurance	424 523	7 129	340 105	7 348
Total	**14 641 677**	**22 131**	**14 346 087**	**20 010**

(in thousands of Russian Roubles)

29. Risk Management (Continued)

The major part of term insurance consists of investment and universal life insurance. Investment insurance represents a long-term investment strategy with a certain dynamic underlying asset and guaranteed return of the share of the insurance premium paid by the client. Universal long-term insurance is a long-term insurance protection of an insured person including creation of savings and the possibility to obtain additional investment income. To fulfil its obligations to pay insured persons guaranteed returns, the Company invests assets in such a way that the return on assets at least covers the return guaranteed to policy holders. Both investment and universal insurance also offer insurance coverage of certain events: death of an insured person for any reason and survival to the end of the insurance contract.

Pension insurance provides for annuities, made upon the reach of the retiring age. In case of death before retirement, the contracts provide for the return of the accumulated funds or premiums.

Products with guaranteed annuity are represented by pension insurance and annuity insurance contracts which provide for guaranteed period of annuity or pension allowance.

Pension insurance for survival to the end of the contract represents pension insurance contracts, which do not provide for guaranteed payment period, and pension is paid only until an insured person dies (certain products may limit payment period to 100 years).

In case of pension insurance and annuity contracts, which provide for life-contingent annuities, the Company's most significant risk factor is increasing life expectancy of insured persons due to development of medicine and improvement of social conditions.

The information on concentration of liabilities under life insurance contracts by geographical regions as at 31 December 2018 and 31 December 2017 is presented below:

	2018		2017	
	Life insurance provisions	**Reinsurers' share in life insurance provision**	**Life insurance provisions**	**Reinsurers' share in life insurance provision**
Russia	14 641 677	714	14 346 087	-
OECD countries	-	21 417	-	20 010
Total	**14 641 677**	**22 131**	**14 346 087**	**20 010**

The Company accepts life insurance risks in the Russian Federation only. This allows to apply unified mortality tables and other demographic parameters to the entire insurance portfolio.

The information on concentration of liabilities under non-life insurance contracts by geographical regions as at 31 December 2018 and 31 December 2017 is presented below:

	2018		2017	
	Non-life insurance provisions	**Reinsurers' share in provisions**	**Non-life insurance provisions**	**Reinsurers' share in provisions**
Russia	3 584 910	12 145	2 890 250	-
OECD countries	-	302 016	-	184 294
Total	**3 584 910**	**314 161**	**2 890 250**	**184 294**

Underwriting risks

Underwriting risks are primarily biometric risks (risks of adverse changes in such parameters of insurance portfolio as mortality, morbidity, etc.), as well as losses due to lack of insurance premiums to cover losses and lack of insurance provisions. The assessment of underwriting risks is an integral part of the development, implementation and modification of insurance products, as well as the process for underwriting risk insurance. The Company settled the limits of underwriting and some qualitative restrictions on the risks insured. The Company regularly monitors the results of insurance transactions by insurance products and their groups and, if necessary, modifies the insurance products on a timely basis. In addition, the diversity of the insurance portfolio by risks of death and survival is aimed at reducing biometric risks.

Market risks

Market risks are potential losses caused by changes in market prices or parameters that influence market prices, including changes in market prices due to lack of liquidity in the markets. Key market risks the Company is exposed to are interest rate risk, currency risk and price risk. The management sets limits on the level of exposure and monitors their compliance on a daily basis.

(in thousands of Russian Roubles)

29. Risk Management (Continued)

The Company sets limits on the level of exposure and monitors their compliance. The use of this approach does not prevent losses outside of these limits in the event of more significant market changes. The Company carries out sensitivity analysis for each type of market risk valid at the end of the reporting period, reflecting how potential changes in the related risk variable that could have occurred at the reporting period would have impacted profit or loss. The Company manages market risk in accordance with market risk management policy. Market risk management aims to optimise risk (return) ratio, minimise losses in case of adverse events and reduce the deviation of actual financial result from the expected one.

Market risk management includes managing the securities portfolios and controlling open currency positions, interest rates and derivative financial instruments. For this purpose, the Company's Risk Management Committee sets limits for open positions and other loss limits when managing securities portfolio. The Company's Committee for Interest-Rate Policy and Limits develops a methodology for market risk management and sets limits on certain transactions. Market risk limits are based on cost analysis, risk exposure, scenario analysis, stress tests and regulatory requirements of the Bank of Russia.

The Company assesses market risk both by elements and cumulatively, determining concentration of the market risk and diversification effect.

Interest rate and currency risks management is ensured by maintaining duration and currencies consistency between assets and liabilities. The target structure of assets is determined based on actual and plan structure of liabilities. It also takes into account statutory restrictions on the insurance provisions and own funds placements and requirements of the Allianz Group. Besides, the limit gaps in cash flows and open currency position limits are established for the Company.

Currency risk

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

The Company is exposed to the effect of foreign exchange rate fluctuations that have an impact on its financial position and cash flows. The main transactions are carried out in Russian roubles and currency risk arises mainly in relation to US dollar and euro.

The proportion of foreign currency-denominated and RR-denominated instruments within portfolio is determined on the basis of an analysis of the current and projected proportion of the Company's foreign currency assets and liabilities, retrospective analysis of exchange rate movements, official exchange rate forecasts and forecasts made by analytical agencies and leading financial institutions. The obtained results are compared with the current interest rates in RR and foreign currencies. The Company adheres to a rather conservative approach to balancing assets and liabilities in terms of currency positions and maturity and avoids significant deviations from the balanced position.

The structure of the Company's financial and insurance assets and liabilities by currencies at 31 December 2018 is as follows:

	Russian Rouble	US Dollar	Euros	Total
Assets				
Cash and cash equivalents	233 290	95 518	5 135	333 943
Deposits with banks	1 245 101	39 896	-	1 284 997
Available-for-sale financial instruments	9 923 896	6 611 243	660 831	17 195 970
Held-to-maturity financial instruments	-	88 622	-	88 622
Financial instruments at fair value through profit or loss	25 907	90 004	-	115 911
Accounts receivable	2 664 256	86 028	107 388	2 857 672
Reinsurers' share of life insurance provision	17 142	4 823	166	22 131
Reinsurers' share of loss provision	189 584	-	-	189 584
Other assets	60 177	-	-	60 177
Investments in associates	291 915	-	-	291 915
Total assets	**14 651 268**	**7 016 134**	**773 520**	**22 440 922**
Liabilities				
Life insurance provision	6 949 774	7 023 829	668 074	14 641 677
Loss provision	842 736	7 547	316	850 599
Borrowings	214 121	-	-	214 121
Accounts payable	977 120	100 632	217 707	1 295 459
Total liabilities	**8 983 751**	**7 132 008**	**886 097**	**17 001 856**
Net position	**5 667 517**	**(115 874)**	**(112 577)**	**5 439 066**

(in thousands of Russian Roubles)

29. Risk Management (Continued)

The structure of the Company's financial and insurance assets and liabilities by currencies at 31 December 2017 is as follows:

	Russian Rouble	US Dollar	Euros	Total
Assets				
Cash and cash equivalents	1 025 161	128 587	10 001	1 163 749
Deposits with banks	3 132 439	-	-	3 132 439
Available-for-sale financial instruments	8 691 169	5 434 369	644 652	14 770 190
Held-to-maturity financial instruments	-	79 625	-	79 625
Financial instruments at fair value through profit or loss	75 758	104 286	-	180 044
Accounts receivable	1 796 281	84 843	41 237	1 922 361
Reinsurers' share of life insurance provision	15 436	4 401	173	20 010
Reinsurers' share of loss provision	54 182	-	-	54 182
Other assets	101 845	-	-	101 845
Investments in associates	299 684	-	-	299 684
Total assets	**15 191 955**	**5 836 111**	**696 063**	**21 724 129**
LIABILITIES				
Life insurance provision	8 065 469	5 693 387	587 231	14 346 087
Loss provision	591 972	6 399	93	598 464
Borrowings	807 117	-	-	807 117
Accounts payable	543 126	66 825	101 989	711 940
Total liabilities	**10 007 684**	**5 776 611**	**689 313**	**16 463 608**
Net position	**5 184 271**	**69 500**	**6 750**	**5 260 521**

The following table details the Company's sensitivity to changes in the USD and EUR against the RR. The sensitivity analysis includes exclusively amounts in foreign currency available as at the end of a period. The conversion of these amounts at the end of the period applies exchange rates, changed to a corresponding interest rate compared to the current ones (except for derivative financial instruments denominated in foreign currency). The scale applied for sensitivity analysis represents management's assessment of reasonably possible change in foreign currency exchange rates.

	2018		**2017**	
Changes in foreign exchange rates	**Effect on profit**	**Impact on equity**	**Effect on profit**	**Impact on equity**
10% increase in US dollar to Russian rouble rate	(11 587)	(9 270)	6 950	5 560
10% decrease in US dollar to Russian rouble rate	11 587	9 270	(6 950)	(5 560)
10% increase in Euro to Russian rouble rate	(11 258)	(9 006)	675	540
10% decrease in Euro to Russian rouble rate	11 258	9 006	(675)	(540)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in attracting cash to fulfil its obligations. Liquidity risk arises when the maturity of assets and liabilities does not match resulting from inability to sell financial assets quickly at their fair value, a counterparty failing to meet contractual obligations, an insurance liability falling due for payment earlier than expected.

The Company manages liquidity in accordance with the internal policy, which determines the Company's liquidity risk, sets out minimal amount of funds and sources of funding to meet emergency calls, establishes a procedure for reporting liquidity risk exposures and breaches to supervising authorities, establishes control over compliance with liquidity risk policy and its review for compliance with changing environment. The Policy is regularly reviewed for relevance and adequacy.

Disaster reinsurance contracts based on excess of loss provide for immediate use of funds to meet claims in case a certain scale of an insured event is exceeded.

The Company uses available funds to settle claims on a daily basis, therefore, to reduce liquidity risk the Company places the major part of deposits on the terms providing for immediate cancellation.

The analysis of financial and insurance assets and liabilities as at 31 December 2018 with remaining maturity is presented in the table below. The undiscounted cash flows from the Company's financial liabilities on the basis of their earliest possible contractual maturity do not vary materially from this analysis, presented below. The maturity term for insurance provisions is an expected one.

(in thousands of Russian Roubles)

29. Risk Management (Continued)

	Due within 1 month	From 1 month to 1 year	From 1 to 5 years	Due after 5 years	No maturity	Total
Assets						
Cash and cash equivalents	333 943	-	-	-	-	333 943
Deposits with banks	530 778	669 908	84 311	-	-	1 284 997
Held-to-maturity financial instruments	-	-	-	88 622	-	88 622
Available-for-sale financial instruments	-	2 157 242	5 663 955	9 359 935	14 838	17 195 970
Financial instruments at fair value through profit or loss	19 363	31 866	63 678	1 004	-	115 911
Accounts receivable	2 317 897	512 078	27 697	-	-	2 857 672
Reinsurers' share of life insurance provision	17	14 210	1 930	5 974	-	22 131
Reinsurers' share of loss provision	-	189 584	-	-	-	189 584
Other assets	-	60 177	-	-	-	60 177
Investments in associates	-	-	-	-	291 915	291 915
Total assets	**3 201 998**	**3 635 065**	**5 841 571**	**9 455 535**	**306 753**	**22 440 922**

	Due within 1 month	From 1 month to 1 year	From 1 to 5 years	Due after 5 years	No maturity	Total
LIABILITIES						
Loans received	-	214 121	-	-	-	214 121
Life insurance provision	309 165	2 629 423	4 128 531	7 574 558	-	14 641 677
Loss provision	-	850 599	-	-	-	850 599
Accounts payable	638 021	576 432	81 006	-	-	1 295 459
Total liabilities	**947 186**	**4 270 575**	**4 209 537**	**7 574 558**	**-**	**17 001 856**
Net liquidity gap	**2 254 812**	**(635 510)**	**1 632 034**	**1 880 977**	**306 753**	**5 439 066**
Cumulative liquidity gap	**2 254 812**	**1 619 302**	**3 251 336**	**5 132 313**	**5 439 066**	**-**

The analysis of financial and insurance assets and liabilities as at 31 December 2017 with remaining maturity is presented in the table below. The undiscounted cash flows from the Company's financial liabilities on the basis of their earliest possible contractual maturity do not vary materially from this analysis, presented below.

	Due within 1 month	From 1 month to 1 year	From 1 to 5 years	Due after 5 years	No maturity	Total
Assets						
Cash and cash equivalents	1 163 749	-	-	-	-	1 163 749
Deposits with banks	920 761	1 738 049	473 629	-	-	3 132 439
Held-to-maturity financial instruments	-	-	-	79 625	-	79 625
Available-for-sale financial instruments	-	2 347 170	5 946 055	6 464 489	12 476	14 770 190
Financial instruments at fair value through profit or loss	37 199	48 625	94 220	-	-	180 044
Accounts receivable	593 492	1 328 401	468	-	-	1 922 361
Reinsurers' share of life insurance provision	8 314	3 706	2 048	5 942	-	20 010
Reinsurers' share of loss provision	-	54 182	-	-	-	54 182
Other assets	-	101 845	-	-	-	101 845
Investments in associates	-	-	-	-	299 684	299 684
Total assets	**2 723 515**	**5 621 978**	**6 516 420**	**6 550 056**	**312 160**	**21 724 129**
LIABILITIES						
Loans received	-	807 117	-	-	-	807 117
Life insurance provision	200 707	3 813 972	4 193 154	6 138 254	-	14 346 087
Loss provision	-	598 464	-	-	-	598 464
Accounts payable	188 485	474 402	40 430	8 623	-	711 940
Total liabilities	**389 192**	**5 693 955**	**4 233 584**	**6 146 877**	**-**	**16 463 608**
Net liquidity gap	**2 330 730**	**(71 977)**	**2 282 836**	**403 179**	**312 160**	**5 260 521**
Cumulative liquidity gap	**2 330 730**	**2 258 753**	**4 541 589**	**4 944 768**	**5 256 928**	**-**

(in thousands of Russian Roubles)

29. Risk Management (Continued)

Credit risks

Credit risk is the risk of financial losses to the Company, if a borrower or a counterparty fails to meets their obligations.

The Company monitors and manages the credit risks of counterparties and the concentration of such risks to timely discharge obligations to policyholders, to maintain adequate capitalization and to satisfy legal requirements to solvency. The basis for assessing the creditworthiness of counterparties are the types of financial instruments applied and counterparties credit ratings assigned by international rating agencies. The Company uses the rating scale provided by Standard&Poors and Fitch depending on the availability of rating of a counterparty.

a. Credit ratings of Fitch Ratings

AAA: Highest credit quality, the lowest expectations of default risks. Exceptionally strong capacity for timely payment of financial commitments.

AA: Very high credit quality, expectations of very low default risk and very strong capacity for timely payment of financial commitments.

A: High credit quality, expectations of low default risk and strong capacity for payment of financial commitments.

BBB: Good credit quality. BBB ratings imply that expectations of credit risks are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.

BB: “BB” ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments.

B: “B” ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

b. Credit ratings of Standard&Poor’s

AAA: Extremely strong capacity to meet financial commitments.

AA: Very strong capacity to meet financial commitments.

A: Strong capacity to meet financial commitments but somewhat susceptible to adverse economic conditions and changes in circumstances.

BBB: Adequate capacity to meet its financial commitments, however, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation.

BB: Less vulnerable in the near term, but major ongoing uncertainties and exposure to adverse business, financial, or economic conditions.

B: Higher vulnerability to adverse business, financial, or economic conditions, though the obligor currently has the capacity to meet its financial commitments.

The analysis of financial and insurance assets and liabilities by credit ratings as at 31 December 2018 is presented below:

	AA	**A**	**BBB**	**BB and below**	**Unrated**	**Total**
Cash and cash equivalents	-	-	280 567	2 594	50 782	**333 943**
Deposits with banks	-	-	1 070 752	214 245	-	**1 284 997**
Available-for-sale financial instruments	-	-	15 846 886	1 334 246	14 838	**17 195 970**
Held-to-maturity financial instruments	36 606	-	52 015	-	-	**88 621**
Financial instruments at fair value through profit or loss	19 363	89 852	6 696	-	-	**115 911**
Accounts receivable	531 349	-	13 470	-	2 312 853	**2 857 672**
Reinsurers’ share of loss provision	189 584	-	-	-	-	**189 584**
Reinsurers’ share of life insurance provision	22 131	-	-	-	-	**22 131**
Total	**799 033**	**89 852**	**17 270 386**	**1 551 085**	**2 378 473**	**22 088 829**

(in thousands of Russian Roubles)

29. Risk Management (Continued)

The analysis of financial and insurance assets and liabilities by credit ratings as at 31 December 2017 is presented below:

	AA	A	BBB	BB and below	Unrated	Total
Cash and cash equivalents	–	-	129 181	548 758	485 810	**1 163 749**
Deposits with banks	–	-	1 148 816	1 778 433	205 190	**3 132 439**
Available-for-sale financial instruments	–	-	13 973 327	784 387	12 476	**14 770 190**
Held-to-maturity financial instruments	30 414	-	49 211	-	-	**79 625**
Financial instruments at fair value through profit or loss	19 029	106 463	54 552	-	-	**180 044**
Accounts receivable	72 312	-	–	-	1 850 049	**1 922 361**
Reinsurers' share of loss provision	54 182	-	–	-	-	**54 182**
Reinsurers' share of life insurance provision	20 010	-	-	-	-	**20 010**
Total	**195 947**	**106 463**	**15 355 087**	**3 111 578**	**2 553 525**	**21 322 600**

Business risks

Business risks include the risks related to the costs and risks caused by the policyholders' behaviour. The risks associated with the costs include the increase in acquisition costs and administrative expenses due to inflation, decrease in revenue or growth of costs above the planned value. Business risks management is based on planning and subsequent monitoring of the main profitability ratios and parameters that have an influence on them. The measures, which allow reducing the Company's losses, are settled in part of the most threatening scenarios in case of their realisation.

Operational risks

Operational risks are losses due to shortcomings or failures in business processes, losses from human errors, failures of computer systems, and losses from the unfavourable external factors, which cause decrease in efficiency or business downtime. The Company is aimed at early detection of operational risks and applies proactive approach to managing them. The Company determines the operational risks and the appropriate control procedures by a structured self-assessment. Besides, the Company accumulates statistical data on realised losses caused by operational risk occurrence. Based on the analysis of such statistical data the Company prepares proposals on improvement of business processes and/or control procedures in order to reduce losses caused by realisation of operational risks.

Strategic risk

Strategic risk implies deterioration of the Company's financial performance due to erroneous decisions made by its managements regarding development and implementation of the Company's development strategy. This risk represents the correspondence the Company's strategic goals and planned ways of their achievement to available resources. Strategic risk includes the Company management's ability to efficiently analyse and quickly address changes in external factors (market conditions). The Company's strategic risk management is connected with strategic planning, which is based on an annually updated three-year business plan. The Company quarterly evaluates its key indicators by comparing them to the business plan and implementation of strategic projects and, if necessary, adjusts its activity based on the results of such evaluations. The Company also monitors changes in insurance market, activities of competitors, dynamics of financial markets, changes in legal regulation of insurance activities and other external factors.

Reputational risks

Reputational risks include deterioration of the Company`s financial performance due to deterioration of its reputation. The Company's reputational risk management is based on the identification and consecutive strict regulation up to the complete prohibition of the Company`s actions in the areas, which are mostly exposed to reputational risk.

30. Capital management

The Company's capital management has the following objectives: i) to comply with the capital requirements set by the Russian law and the Central Bank of the Russian Federation and (ii) to safeguard the Company's ability to continue as a going concern.

(in thousands of Russian Roubles)

30. Capital management (Continued)

In accordance with Industry Specific Accounting Standards (ISAS), the Company's capital includes share capital, reserve capital, additional capital and retained earnings. Insurance companies being residents of the Russian Federation must comply with the following regulatory capital requirements, which are calculated on the basis of the financial statements prepared under ISAS):

- compliance with the requirements to calculation of equity (capital), established by Bank of Russia's Ordinance No. 4896-U of 16 October 2018 "On the Methodology for Measuring Insurer's Capital (Excluding Mutual Insurance Companies)"
- excess of net assets over charter capital (set by Federal Law No. 14-FZ dated 8 February 1998 "On Limited Liability Companies", and Order of the Russian Finance Ministry No. 84n of 28 August 2014 "On Approving the Method of Net Assets Valuation");
- compliance with the requirements to the composition and structure of assets accepted as coverage of insurer's equity (capital) (set by Bank of Russia's Ordinance No. 4298-U of 20 June 2017 "On Investing Insurer's Equity (Capital) and List of Assets Allowed for Investment");
- compliance with the requirements for investment of insurance provisions in accordance with the Bank of Russia's Ordinance No.4297-U of 22 February 2017 "On the Procedure for Investing Insurance Reserve Funds, and the List of Assets Eligible for Investment");
- compliance with the requirements to the minimal charter capital set by Law No. 4015-1 of 27 November 1992 "On Organisation of Insurance Business in the Russian Federation", with all changes and amendments to these regulations.
- compliance with the level of solvency margin set by the bank of Russia's Ordinance No. 3743-U of 28 July 2015 "On the Procedure for an Insurance Company to Calculate Capital to Liabilities Ratio";

Comparison of the regulatory solvency margin and the actual solvency margin calculated in accordance with the requirements of the Russian law is presented in the table below:

Description	31 December 2018	31 December 2017
Regulatory solvency margin	1 798 484	1 683 017
Actual solvency margin	2 896 565	3 298 163
Deviation of actual solvency margin from regulatory (as the difference between regulatory and actual solvency margins)	1 098 081	1 615 146
Difference between actual and regulatory margins, %	62	96

The Company evaluates capital adequacy on a regular basis to meet the requirements for minimum paid charter capital and ensure that its actual solvency margin is in line with the regulatory solvency margin. Compliance with the above regulatory requirements is monitored on a regular basis through reporting forms containing the required calculations and provided to the Bank of Russia. The regular monitoring of capital adequacy enables the Company to forecast a need for additional investments in capital.

The Company's charter capital is fully paid in cash and is in line with the effective legal requirements for the minimum size of charter capital of insurance companies.

At 31 December 2018 and 31 December 2017, the Company complied with all the requirements established by the Bank of Russia for the level of capital, placements of equity and insurance provisions.

31. Contingencies and Commitments

Legal proceedings. From time to time, in the ordinary course of business, the Company is subject to legal actions and complaints. On the basis of own estimates and internal and external professional advice, management the Company is of the opinion that no material losses will be incurred, which are not already recorded as a provision in these financial statements.

Tax contingencies. Russian tax legislation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

(in thousands of Russian Roubles)

31. Contingencies and Commitments (Continued)

The Russian transfer pricing legislation is generally align with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. Transfer pricing legislation provides for possibility to impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Company.

Capital expenditure commitments. At 31 December 2018 and 31 December 2017, the Company had no contractual capital expenditure commitments in respect of premises or material contractual obligations in respect of computer software and equipment.

Operating lease commitments. Where the Company is a lessee, the future minimum lease payments under operating leases, are as follows:

	2018	**2017**
Less than 1 year	48 621	47 377
Total operating lease commitments	**48 621**	**47 377**

32. Presentation of Financial Instruments by Measurement Category

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", the Company classifies its financial assets into the following categories: (a) available-for-sale financial assets; (b) financial assets held to maturity; (c) financial assets at fair value through profit or loss and (d) placements and accounts receivable. In addition, there is a separate category of assets and liabilities arising from insurance contracts.

The following table provides a reconciliation of financial assets with the above measurement categories as at 31 December 2018:

	Available-for-sale assets	**Assets at fair value through profit or loss**	**Placements and accounts receivable**	**Held to maturity**	**Assets and liabilities arising from insurance contracts**	**Carrying amount**
Financial assets						
Cash and cash equivalents	-	-	333 943	-	-	**333 943**
Deposits with banks			1 284 997			**1 284 997**
Financial instruments at fair value through profit or loss	-	115 911	-	-	-	**115 911**
Available-for-sale financial instruments	17 195 970	-	-	-	-	**17 195 970**
Held-to-maturity financial instruments	-	-	-	88 622	-	**88 622**
Accounts receivable	-	-	-	-	2 857 672	**2 857 672**
Other assets	-	-	60 177	-	-	**60 177**
Reinsurers' share of insurance provisions	-	-	-	-	336 292	**336 292**
Total financial assets	**17 195 970**	**115 911**	**1 679 117**	**88 622**	**3 193 964**	**22 273 584**

(in thousands of Russian Roubles)

32. Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with the above measurement categories as at 31 December 2017:

	Available-for-sale assets	Assets at fair value through profit or loss	Placements and accounts receivable	Held to maturity	Assets and liabilities arising from insurance contracts	Carrying amount
Assets						
Cash and cash equivalents	-	-	1 163 749	-	-	**1 163 749**
Deposits with banks			3 132 439			**3 132 439**
Financial instruments at fair value through profit or loss	-	180 044	-	-	-	**180 044**
Available-for-sale financial instruments	14 770 190	-	-	-	-	**14 770 190**
Held-to-maturity financial instruments	-	-	-	79 625	-	**79 625**
Accounts receivable	-	-	-	-	1 922 361	**1 922 361**
Other assets	-	-	101 845	-	-	**101 845**
Reinsurers' share of insurance provisions	-	-	-	-	206 304	**206 304**
Total financial assets	**14 770 190**	**180 044**	**4 398 033**	**79 625**	**2 128 665**	**21 556 557**

33. Fair value of Financial Instruments

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Fair value hierarchy

The general fair value measurement principles and the description of levels of the fair value hierarchy used by the Company are presented in Note 4.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

The following table shows the levels in the fair value hierarchy into which the recurring fair value measurements are categorised as at 31 December 2018:

	2018			2017		
	Quoted market price (Level 1)	**Valuation technique with significant non-observable inputs (Level 3)**	**Total**	**Quoted market price (Level 1)**	**Valuation technique with significant non-observable inputs (Level 3)**	**Total**
Available-for-sale financial instruments, including:	17 195 970	-	17 195 970	14 770 190	-	14 770 190
- Government bonds	*11 477 369*	-	*11 477 369*	*10 859 283*	-	*10 859 283*
- Corporate bonds	*5 623 133*	-	*5 623 133*	*3 836 732*	-	*3 192 080*
- Municipal bonds	*80 630*	-	*80 630*	*61 699*	-	*61 699*
- Units of investment funds	*14 838*	-	*14 838*	*12 476*	-	*12 476*
Financial instruments at fair value through profit or loss, including:	19 362	96 549	115 911	18 753	161 291	180 044
- structured financial instruments	-	*96 549*	*96 549*	-	*161 291*	*161 291*
- shares of other companies	*15 704*	-	*15 704*	*15 122*	-	*15 122*
- units of investment funds	*3 658*	-	*3 658*	*3 631*	-	*3 631*
Total assets recurring fair value measurements	**17 215 332**	**96 549**	**17 311 881**	**14 788 943**	**161 291**	**14 950 234**

(in thousands of Russian Roubles)

33. Fair value of Financial Instruments (Continued)

The level 3 debt instruments are valued at the net present value of estimated future cash flows.

The valuation technique, inputs used in the fair value measurement for Level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows as at 31 December 2018:

Description	Fair value	Assessment method	Inputs used	Reasonable change	Sensitivity of fair value measurements
Assets carried out at fair value, including:					
financial assets, including:					
Financial instruments at fair value through profit or loss, including:					
Structured financial instruments	96 548	Indicative value provided by issuer	Indicative value provided by issuer	+ 10%	9 655

The valuation technique, inputs used in the fair value measurement for Level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows as at 31 December 2018:

Description	Fair value	Assessment method	Inputs used	Reasonable change	Sensitivity of fair value measurements
Assets carried out at fair value, including:					
financial assets, including:					
Financial instruments at fair value through profit or loss, including:					
Structured financial instruments	161 292	Indicative value provided by issuer	Indicative value provided by issuer	+ 10%	16 129

As at 31 December 2018 and 31 December 2017, the Company had no liabilities recurring fair value measurements.

(b) Non-recurring fair value measurements

As at 31 December 2018 and 31 December 2017, the Company had no financial instruments non-recurring fair value measurements.

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair value analysed by level in the fair value hierarchy and carrying amount of financial assets and liabilities not measured at fair value as at 31 December 2018 are as follows:

	Quoted price in an active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value	Carrying amount
Financial assets not measured at fair value					
Cash and cash equivalents	333 943	-	-	333 943	333 943
- cash on hand	*1 234*	-	-	*1 134*	*1 134*
- settlement accounts with banks	*46 602*	-	-	*46 602*	*46 602*
- brokerage and investment accounts	*148 075*	-	-	*148 075*	*148 075*
- deposits classified as cash	*138 032*			*138 032*	*138 032*
Deposits with banks	-	1 284 997	-	1 284 997	1 284 997
Financial assets held to maturity, including:	88 622	-	-	88 622	88 622
- government bonds	*52 017*	-	-	*52 017*	*52 017*
- corporate bonds	*36 605*	-	-	*36 605*	*36 605*
Accounts receivable, including:	-	-	2 857 672	2 857 672	2 857 672
- receivables arising from direct insurance transactions	-	-	*2 309 406*	*2 309 406*	*2 309 406*
- receivables for insurance claims of reinsurers	-	-	*544 819*	*544 819*	*544 819*
- other receivables	-	-	*3 447*	*3 447*	*3 447*
Investments in associates	-	-	291 915	291 915	291 915
Reinsurers' share of life insurance provision	-	-	22 131	22 131	22 131
Reinsurers' share of loss provision	-	-	189 584	189 584	189 584
Total	284 533	1 423 029	3 361 302	5 068 864	5 068 864

(in thousands of Russian Roubles)

33. Fair value of Financial Instruments (Continued)

	Quoted price in an active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value	Carrying amount
Financial liabilities not measured at fair value,					
Accounts payable, including:	-	-	1 218 430	1 218 430	1 218 430
Payables arising from outward reinsurance contracts	-	-	*681 104*	*681 104*	*681 104*
Prepayments of insurance premiums	-	-	*257 965*	*257 965*	*257 965*
Payables for agency fees	-	-	*178 517*	*178 517*	*178 517*
Outsourcing financial, information and consulting services to related parties			*100 844*	*100 844*	*100 844*
Loans received	-	-	214 121	214 121	214 121
Life insurance provision	-	-	14 641 677	14 641 677	14 641 677
Loss provision	-	-	850 599	850 599	850 599
Total	**-**	**-**	**16 924 827**	**16 924 827**	**16 924 827**

Fair value analysed by level in the fair value hierarchy and carrying amount of financial assets and liabilities not measured at fair value as at 31 December 2017 are as follows:

	Quoted price in an active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value	Carrying amount
Financial assets not measured at fair value,					
Cash and cash equivalents	1 163 749	-	-	1 163 749	1 163 749
- cash on hand	*890*	-	-	*890*	*890*
- settlement accounts with banks	*138 571*	-	-	*138 571*	*138 571*
- brokerage and investment accounts	*604 297*	-	-	*604 297*	*604 297*
- deposits classified as cash	*419 991*			*419 991*	*419 991*
Deposits with banks	-	3 132 439	-	3 132 439	3 132 439
Financial assets held to maturity, including:	79 625	-	-	79 625	79 625
- government bonds	49 211	-	-	49 211	49 211
- corporate bonds	30 414	-	-	30 414	30 414
Accounts receivable, including:	-	-	1 922 361	1 922 361	1 922 361
- receivables arising from direct insurance transactions	-	-	*1 832 889*	*1 832 889*	*1 832 889*
- receivables for insurance claims of reinsurers	-	-	*72 312*	*72 312*	*72 312*
- other receivables	-	-	*17 160*	*17 160*	*17 160*
Investments in associates	-	-	299 684	299 684	299 684
Reinsurers' share of life insurance provision	-	-	20 010	20 010	20 010
Reinsurers' share of loss provision	-	-	54 182	54 182	54 182
Total	**1 243 374**	**3 132 439**	**2 296 237**	**6 672 050**	**6 672 050**

	Quoted price in an active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value	Carrying amount
Financial liabilities not measured at fair value,					
Accounts payable, including:	-	-	671 467	671 467	671 467
Payables arising from outward reinsurance contracts	-	-	*160 243*	*160 243*	*160 243*
Prepayments of insurance premiums	-	-	*272 085*	*272 085*	*272 085*
Payables for agency fees	-	-	*155 984*	*155 984*	*155 984*
Outsourcing financial, information and consulting services to related parties			*83 155*	*83 155*	*83 155*
Loans received	-	-	807 117	807 117	807 117
Life insurance provision	-	-	14 346 087	14 346 087	14 346 087
Loss provision	-	-	598 464	598 464	598 464
Total	**-**	**-**	**16 423 135**	**16 423 135**	**16 423 135**

(in thousands of Russian Roubles)

33. Fair value of Financial Instruments (Continued)

For estimation of fair value of financial instruments not recognized at fair value, the following methods and assumptions were used:

- The fair value of held-to-maturity financial assets is based on quoted market prices.
- The fair values of insurance and reinsurance receivables and deposits with banks and other credit institutions approximate their carrying amounts as the assets have a short-term nature.
- The fair values of insurance and reinsurance payables and other financial liabilities approximate their carrying amounts as the assets have a short-term nature.

34. Related Party Transactions

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

Related parties may enter into transactions, which unrelated parties might not enter. In the normal course of business, the Company enters into transactions with these related parties on an arm's length basis.

The principal shareholder of the Company is Allianz New Europe Holding GMBH, which is ultimately owned and controlled by Allianz SE. These companies are further referred to as "Parent company". Other related parties comprise companies included in Allianz group, except for Allianz New Europe Holding GMBH.

Balances at 31 December 2018 and 2017, as well as income and expenses for 2018 and 2017 with related parties are as follows:

	2018		2017	
	Parent	Others companies	Parent	Others companies
Assets and liabilities				
Accounts receivable	112 773	383 949	47 146	43 229
Reinsurers' share of provision for unearned premiums	13 603	63 244	14 148	44 659
Reinsurers' share of life insurance provision	6 956	1 371	7 439	1 371
Reinsurers' share of loss provision	3 117	-	905	-
Investments in associates	-	291 915	-	299 684
Deferred commission income	(2 096)	(10 670)	(2 382)	(5 882)
Loans received	-	(214 121)	-	(807 117)
Accounts payable	(143 785)	(462 579)	(83 210)	(174 471)
Income and expenses				
Premiums ceded	(159 758)	(528 551)	(167 286)	(441 027)
Change in reinsurers' share of unearned premiums provision	(545)	18 585	(21 160)	24 159
Reinsurers' share in claims paid	101 730	376 926	102 890	264 655
Change in reinsurers ' share of life insurance reserve	(483)	-	2 612	(3 763)
Change in reinsurers' share in loss provisions	2 212	-	(453)	-
Commission income on reinsurance outwards	21 334	100 125	22 556	64 457
Change in deferred fee and commission income	286	(4 788)	2 553	(1 914)
Acquisition costs	-	-	-	(17 774)
Operating expenses from insurance activities	(31 078)	(42 417)	(25 487)	(136 740)
Investment operating expenses	-	(57 746)	-	(7 117)

In 2018, total compensation of the key management personnel and additional benefits amounted to RR 57 793 thousand, social security contributions constituted RR 4 626 thousand (2017: RR 89 952 thousand and RR 3 043 thousand respectively).

35. Subsequent Events

Svetlana Valerievna Amshannikova was appointed as the Chief Executive Officer of the Company on 19 February 2019.