

**OPEN JOINT STOCK  
COMPANY “AZRE  
REINSURANCE”**

**Consolidated Financial Statements**  
For the Year Ended December 31, 2015

**OFFICE  
COPY**

# OPEN JOINT STOCK COMPANY “AZRE REINSURANCE”

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## OPEN JOINT STOCK COMPANY "AZRE REINSURANCE"

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the "AzRe Reinsurance" Open Joint Stock Company ("OJSC") and its subsidiaries ("the Group") as at December 31, 2015, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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


The consolidated financial statements of the Group for the year ended December 31, 2015 were approved by the Management Board on August 24, 2016:

On behalf of the Management Board:

  
Mr. Fuad Guliyev  
Chairman of the Board



August 24, 2016  
Baku, the Republic of Azerbaijan

  
Mrs. Lala Afandiyeva  
Finance Director

August 24, 2016  
Baku, the Republic of Azerbaijan



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## INDEPENDENT AUDITOR'S REPORT

To the Management Board and the Shareholders of Open Joint Stock Company "AzRe Reinsurance":

We have audited the accompanying consolidated financial statements of the "AzRe Reinsurance" and its subsidiaries (collectively – "the Group"), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Basis for Qualified Opinion*

We were appointed as auditors of the OJSC Qala Life Insurance, which is subsidiary of the Group on May 1, 2016 and thus did not observe the counting of cash on hand at December 31, 2015. We were unable to satisfy ourselves by alternative means concerning cash on hand balances held at December 31, 2015. Since cash on hand balances enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of cash and cash equivalents in the statement of financial position, profit for the year reported in the statement of profit or loss and other comprehensive income, and the net cash flows from operating activities reported in the statement of cash flows.

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*Qualified Opinion*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

We draw attention to Note 2 to the consolidated financial statements, which describes restatement of the corresponding figures as at December 31, 2014. Our opinion is not qualified in that respect.

August 24, 2016  
Baku, the Republic of Azerbaijan

## OPEN JOINT STOCK COMPANY "AZRE REINSURANCE"

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2015

(in Azerbaijan Manats)

	Notes	Year ended December 31, 2015	Year ended December 31, 2014 (restated)
Gross premiums written	5	71,558,867	70,093,407
Premiums ceded	5	(20,614,974)	(13,207,226)
Premiums cancelled	5	(3,380,129)	(941,261)
<b>NET PREMIUMS</b>		<b>47,563,764</b>	<b>55,944,920</b>
Change in reserves for unearned premiums, gross	5	350,596	(3,001,663)
Change in reinsurers' share of reserves for unearned premiums	5	(719,754)	3,251,703
<b>CHANGE IN RESERVES FOR UNEARNED PREMIUMS, NET</b>		<b>(369,158)</b>	<b>250,040</b>
<b>NET PREMIUMS EARNED</b>		<b>47,194,606</b>	<b>56,194,960</b>
Gross claims paid	5	(34,546,901)	(13,349,340)
Claims ceded to reinsurers	5	3,434,765	219,202
Claims handling expenses		(65,318)	(70,198)
<b>CLAIMS PAID, NET OF REINSURERS' SHARE</b>		<b>(31,177,454)</b>	<b>(13,200,336)</b>
Change in loss reserves, gross	5	(5,006,183)	(9,021,015)
Change in reinsurers' share of loss reserves	5	1,874,170	1,900,917
<b>CHANGE IN LOSS RESERVES, NET</b>		<b>(3,132,013)</b>	<b>(7,120,098)</b>
<b>NET CLAIMS INCURRED</b>		<b>(34,309,467)</b>	<b>(20,320,434)</b>
Acquisition costs	6	(7,633,237)	(7,724,772)
Commission income on reinsurance contracts		88,659	44,566
Commission expense on reinsurance contracts		(730,811)	(5,643)
Operating expenses	7,22	(6,956,245)	(4,359,550)
Depreciation and amortization	14	(1,400,480)	(217,664)
Interest income on deposits with banks		6,265,500	5,149,217
Interest income on held-to-maturity investments		219,441	236,831
Interest expense from promissory notes issued		(343,297)	-
Sales and services of transport cards		2,753,336	-
Cost of sold transport cards		(1,036,736)	-
Impairment losses on insurance receivables		(251,230)	-
Impairment losses on deposits with banks	13	(2,647,880)	(2,104,484)
Foreign exchange translation gain, net		15,817,798	(91,608)
Other income, net		72,587	5,539
<b>PROFIT BEFORE TAX</b>		<b>17,102,544</b>	<b>26,806,958</b>
Income tax expense	8	(3,497,961)	(5,365,530)
<b>NET PROFIT FOR THE YEAR</b>		<b>13,604,583</b>	<b>21,441,428</b>

On behalf of the Management Board

Mr. Fuad Guliyev  
Chairman of the Board

August 24, 2016  
Baku, the Republic of Azerbaijan

Mrs. Lala Afandiyeva  
Finance Director

August 24, 2016  
Baku, the Republic of Azerbaijan

The notes on pages 9-57 form an integral part of these consolidated financial statements.

**OPEN JOINT STOCK COMPANY “AZRE REINSURANCE”**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2015**

*(in Azerbaijan Manats)*

	Notes	Year ended December 31, 2015	Year ended December 31, 2014 (restated)
<b>OTHER COMPREHENSIVE INCOME</b>			
Items that will not be reclassified subsequently to profit or loss:			
Change in cumulative translation reserve		3,598,651	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<u>17,203,234</u>	<u>21,441,428</u>
Total comprehensive income attributable to:			
Shareholders of the Parent		16,968,734	21,351,641
Non-controlling interest		<u>234,500</u>	<u>89,787</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<u>17,203,234</u>	<u>21,441,428</u>

On behalf of the Management Board:

Mr. Fuad Guliyev  
Chairman of the Board

August 24, 2016  
Baku, the Republic of Azerbaijan

Mrs. Lala Afandiyeva  
Finance Director

August 24, 2016  
Baku, the Republic of Azerbaijan

The notes on pages 9-57 form an integral part of these consolidated financial statements.

## OPEN JOINT STOCK COMPANY "AZRE REINSURANCE"

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2015 (in Azerbaijan Manats)

	Notes	December 31, 2015	December 31, 2014 (restated)	December 31, 2013
<b>ASSETS</b>				
Cash and cash equivalents	9	19,655,747	12,887,322	20,102,514
Deposits with banks	10, 22	87,486,916	72,172,161	46,451,205
Held-to-maturity investments	11, 22	1,203,386	1,450,872	3,796,400
Available for sale investments	12	5,776,341	5,776,341	-
Insurance and reinsurance receivables	13	6,578,109	9,893,145	6,902,268
Reinsurers' share of reserves for unearned premiums	16	4,263,371	4,983,125	1,731,422
Reinsurers' share of insurance loss reserves	17	4,080,706	2,206,536	305,619
Deferred acquisition costs	6	1,859,686	1,797,062	1,963,361
Deferred tax asset	8	654,700	621,337	347,296
Property, equipment and intangible assets	14	5,535,451	1,458,679	1,278,239
Other non-financial assets	15	2,640,915	411,909	419,748
Prepayment for current income tax		1,060,073	169,162	-
<b>TOTAL ASSETS</b>		<b>140,795,401</b>	<b>113,827,651</b>	<b>83,298,072</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES:</b>				
Reserves for unearned premiums, gross	16	13,434,975	13,785,571	10,783,908
Insurance loss reserves, gross	17	35,506,962	30,500,779	21,479,764
Reinsurance and commissions payable	18	3,212,881	798,226	867,800
Received advances		1,737,129	-	-
Current income tax liability		-	1,535,779	416,388
Deferred tax liability	8	1,194,040	1,999,350	-
Promissory notes issued	19	2,450,496	-	-
Other non-financial liabilities		993,429	145,691	129,385
<b>TOTAL LIABILITIES</b>		<b>58,529,912</b>	<b>48,765,396</b>	<b>33,677,245</b>
<b>EQUITY:</b>				
Equity attributable to owners of the Company:				
Share capital	20	40,000,000	40,000,000	40,000,000
Cumulative translation reserve		3,598,651	-	-
Retained earnings		37,549,200	24,179,117	8,827,476
<b>Total equity attributable to owners of the Company</b>		<b>81,147,851</b>	<b>64,179,117</b>	<b>48,827,476</b>
Non-controlling interest		1,117,638	883,138	793,351
<b>TOTAL EQUITY</b>		<b>82,265,489</b>	<b>65,062,255</b>	<b>49,620,827</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>140,795,401</b>	<b>113,827,651</b>	<b>83,298,072</b>

On behalf of the Management Board

Mr. Fuad Guliyev  
Chairman of the Board

August 24, 2016  
Baku, the Republic of Azerbaijan



Mrs. Lala Afandiyeva  
Finance Director

August 24, 2016  
Baku, the Republic of Azerbaijan

The notes on pages 9-57 form an integral part of these consolidated financial statements.




## OPEN JOINT STOCK COMPANY "AZRE REINSURANCE"

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2015

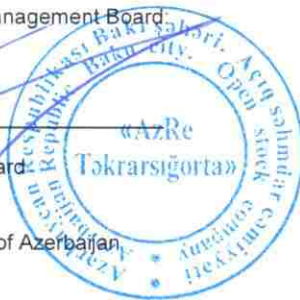
(in Azerbaijan Manats)

	Share Capital	Retained earnings	Cumulative translation reserve	Total equity attributable to owners of the Company	Non-controlling interest	Total Equity
<b>December 31, 2013</b>	40,000,000	8,827,476	-	48,827,476	793,351	49,620,827
Total comprehensive income for the year	-	21,351,641	-	21,351,641	89,787	21,441,428
Dividends paid (Note 20)	-	(6,000,000)	-	(6,000,000)	-	(6,000,000)
<b>December 31, 2014</b>	40,000,000	24,179,117	-	64,179,117	883,138	65,062,255
Total comprehensive income for the year	-	13,370,083	3,598,651	16,968,734	234,500	17,203,234
<b>December 31, 2015</b>	<u>40,000,000</u>	<u>37,549,200</u>	<u>3,598,651</u>	<u>81,147,851</u>	<u>1,117,638</u>	<u>82,265,489</u>

On behalf of the Management Board:

  
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