

OJSC “AZRE REINSURANCE”

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor’s Report**

31 December 2016

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Independent Auditor's Report

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Independent auditor's report

To the Management Board and Shareholders OJSC "AzRe Reinsurance" Company:

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of "AzRe Reinsurance" Company and its subsidiaries (together 'the Group') as at December 31, 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
 - the consolidated statement of profit or loss and other comprehensive income for the year then ended;
 - the consolidated statement of changes in equity for the year then ended;
 - the consolidated statement of cash flows for the year then ended; and
 - the notes to the consolidated financial statements, which include significant accounting policies
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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 consolidated 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 qualified opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another firm of auditors whose report, dated 24 August 2016, expressed a qualified opinion on those statements, due to previous auditor's late appointment and therefore inability to attend counting of cash on hands at 31 December 2015.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

PricewaterhouseCoopers Audit Azerbaijan LLC

March 27, 2018

Baku, the Republic of Azerbaijan

"AZRE REINSURANCE" OJSC
Consolidated Statement of Financial Position

<i>In Azerbaijani Manats</i>	Note	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	7	22,174,222	19,655,747
Deposits with banks	8	40,762,351	87,486,916
Held-to-maturity investments	9	48,350,109	1,203,386
Available for sale investments	10	5,776,341	5,776,341
Mandatory reserve with Compulsory Insurance Bureau		600,000	200,000
Insurance and reinsurance receivables	11	6,043,263	6,578,109
Reinsurers' share of reserves for unearned premiums	14	4,295,212	4,263,371
Reinsurers' share of insurance loss reserves	14	5,027,443	4,080,706
Deferred acquisition costs	21	2,814,842	1,859,686
Prepayment for current income tax		849,554	1,060,073
Deferred tax asset	17	1,764,102	654,700
Other non-financial assets	12	1,848,432	2,440,915
Property, equipment and intangible assets	13	5,930,521	5,535,451
Total assets		146,236,392	140,795,401
Liabilities			
Reserves for unearned premiums, gross	14	15,905,372	13,434,975
Insurance loss reserves, gross	15	33,601,954	35,506,962
Reinsurance, commissions and trade payables	16	8,942,547	3,212,881
Received advances		1,350,360	1,737,129
Current income tax liability		42,986	-
Deferred tax liability	17	-	1,194,040
Borrowings	18	2,468,421	2,450,496
Other liabilities		1,057,848	993,429
Total liabilities		63,369,488	58,529,912
Equity			
Share capital	19	50,000,000	40,000,000
Retained earnings		27,973,125	37,549,200
Cumulative translation reserve		3,598,651	3,598,651
Equity attributable to the Company's owners		81,571,776	81,147,851
Non-controlling interest		1,295,128	1,117,638
Total equity		82,866,904	82,265,489
Total liabilities and shareholders' equity		146,236,392	140,795,401

Approved for issue and signed on behalf of the Management Board on March 27, 2018.

Mr. Ebad Guliyev
Chairman of the Board



Mrs. Lala Afandiyeva
Finance Director

The notes set out on pages 6 to 40 form an integral part of these financial statements

“AZRE REINSURANCE” OJSC

Consolidated Statement of Profit or Loss and Other Comprehensive Income

<i>In Azerbaijani Manats</i>	Note	2016	2015
Gross premiums written	20	80,217,879	71,558,867
Premiums ceded	20	(24,171,074)	(20,614,974)
Premiums cancelled		(2,415,953)	(3,380,129)
Net premiums written		53,630,852	47,563,764
(Increase)/decrease in reserve for unearned premiums, gross	20	(2,470,397)	350,596
Increase/(decrease) in reinsurers' share of reserve for unearned premiums	20	31,841	(719,754)
Change in reserve for unearned premiums, net		(2,438,556)	(369,158)
Net premiums earned		51,192,296	47,194,606
Claims paid, gross	20	(33,461,284)	(34,546,901)
Claims recovered from reinsurers	20	2,144,100	3,434,765
Claims handling expenses	20	-	(65,318)
Claims paid, net of reinsurers' share		(31,317,184)	(31,177,454)
Decrease/(Increase) in insurance loss reserves, gross	20	1,905,008	(5,006,183)
Increase in reinsurers' share of insurance loss reserves	20	946,737	1,874,170
Change in loss reserve, net		2,851,745	(3,132,013)
Net claims incurred		(28,465,439)	(34,309,467)
Acquisition costs	21	(9,859,278)	(7,633,237)
Commission income		205,045	88,659
Commission expense		(80,904)	(730,811)
Operating expenses from Insurance Activities	22	(7,593,074)	(6,066,901)
Operating expenses from Non-Insurance Activities	22	(2,430,059)	(889,344)
Depreciation and amortisation	13	(1,158,477)	(1,400,480)
Interest income on deposits with banks		5,814,021	6,265,500
Interest income on debt securities		1,610,259	219,441
Interest expense on borrowings		(46,171)	(343,297)
Sales and services on cards		3,980,057	2,753,336
Cost of sold cards		(652,830)	(1,036,736)
Provision for impairment of insurance receivables		(613,139)	(251,230)
Provision for impairment of deposits with banks		361,706	(1,967,183)
Foreign exchange translation (loss)/gain, net		3,202,479	15,817,798
Provision for impairment of cash and cash equivalents		(473,903)	(680,697)
Other income net		496,702	72,587
Profit before taxation		15,489,291	17,102,544
Income tax expense		(3,137,876)	(3,497,961)
PROFIT FOR THE YEAR		12,351,415	13,604,583
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Change in cumulative translation reserve		-	3,598,651
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		12,351,415	17,203,234
Total comprehensive income attributable to:			
Shareholders of Parent		12,173,925	16,968,734
Non-controlling interest		177,490	234,500
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		12,351,415	17,203,234

“AZRE REINSURANCE” OJSC
Consolidated Statement of Changes in Equity

	Share capital	Retained earnings	Cumulative translation reserve	Total equity attributable to the owners of the Company	Non-controlling interest	Total equity
<i>In Azerbaijani Manats</i>						
Balance at 1 January 2015	40,000,000	24,179,117		- 64,179,117	883,138	65,062,255
Total comprehensive income for 2015	-	13,370,083	3,598,651	16,968,734	234,500	17,203,234
Balance at 31 December 2015	40,000,000	37,549,200	3,598,651	81,147,851	1,117,638	82,265,489
Total comprehensive income for the year	-	12,173,925	-	12,173,925	177,490	12,351,415
Capitalisation of retained earnings	10,000,000	(10,000,000)	-	-	-	-
Dividends paid	-	(11,750,000)	-	-	-	-
Balance at 31 December 2016	50,000,000	27,973,125	3,598,651	81,571,776	1,295,128	82,866,904

“AZRE REINSURANCE” OJSC
Consolidated Statement of Cash Flows

<i>In Azerbaijani Manats</i>	Note	2016	2015
Cash flows from operating activities			
Gross premiums received		76,835,197	74,415,794
Ceded premiums paid		(20,288,464)	(18,201,863)
Net claims paid		(30,580,983)	(31,139,626)
Acquisition cost paid		(10,370,769)	(7,732,145)
Receipts from card sales		3,980,057	2,753,336
Payments for cards supply		-	(1,036,736)
Commission income received		205,045	88,659
Commission expense paid		(80,904)	(730,811)
Operating expenses paid		(9,256,161)	(5,977,340)
Interest income received		6,721,727	7,730,855
Other income received		308,916	72,587
Cash flows from operating activities before changes in operating assets and liabilities		17,473,661	20,242,710
Changes in operating assets and liabilities			
Decrease/(increase) in other assets		250,212	(2,216,011)
Net increase reinsurance, commissions and trade		48,911	532,773
Net cash generated from operating activities before income tax paid		17,772,784	18,559,472
Income tax paid		(5,187,813)	(6,763,324)
Net cash generated from operating activities		12,584,971	11,796,148
Cash flows from investment activities			
Acquisition of property and equipment and intangible	13	(1,611,276)	(5,490,247)
Net increase/(decrease) in deposits with banks		48,921,017	(5,703,777)
Net increase in held-to-maturity investments		(47,146,723)	(652,514)
Net cash used in investment activities		163,018	(11,846,538)
Net cash provided from financing activities			
Proceeds of loans from borrowings		92,801	2,107,199
Dividends paid		(11,750,000)	-
Effect of exchange rate changes on cash and cash equivalents		1,901,588	4,711,616
Impairment provision on cash and cash equivalents		(473,903)	-
Net increase in cash and cash equivalents		2,518,475	6,768,425
Cash and cash equivalents at the beginning of year	7	19,655,747	12,887,322
Cash and cash equivalents at the end of year		22,174,222	19,655,747