

OJSC “AZRE REINSURANCE”

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

31 December 2017



Independent auditor's report

To the Management Board and Shareholders of 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" (the Company) and its subsidiaries (together "the Group") as at December 31, 2017, 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 2017;
 - 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 a summary of 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 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.

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

September 14, 2018

Baku, the Republic of Azerbaijan

"AZRE REINSURANCE" OJSC
Consolidated Statement of Financial Position

<i>In Azerbaijani Manats</i>	Note	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	7	14,655,300	22,174,222
Deposits with banks	8	31,154,949	40,762,351
Held-to-maturity investments	9	61,695,775	48,350,109
Available for sale investments	10	5,776,341	5,776,341
Mandatory reserve with Compulsory Insurance Bureau		600,000	600,000
Insurance and reinsurance receivables	11	4,452,305	6,043,263
Reinsurers' share of reserves for unearned premiums	13	1,667,872	4,295,212
Reinsurers' share of insurance loss reserves	13	3,757,955	5,027,443
Deferred acquisition costs	20	2,813,592	2,814,842
Prepayment for current income tax		1,635,130	849,554
Deferred tax asset	16	1,214,115	1,764,102
Other non-financial assets		186,323	1,848,432
Property, equipment and intangible assets	12	2,412,958	5,930,521
Total assets		132,022,615	146,236,392
Liabilities			
Reserves for unearned premiums, gross	13	14,806,001	15,905,372
Insurance loss reserves, gross	14	28,308,682	33,601,954
Reinsurance, commissions and trade payables	15	3,404,234	8,942,547
Received advances		662,001	1,350,360
Current income tax liability		-	42,986
Deferred tax liability	16	157,648	-
Borrowings	17	-	2,468,421
Other liabilities		507,018	1,057,848
Total liabilities		47,845,584	63,369,488
Equity			
Share capital	18	50,000,000	50,000,000
Retained earnings		29,164,504	27,973,125
Cumulative translation reserve		3,598,651	3,598,651
Equity attributable to the Company's owners		82,763,155	81,571,776
Non-controlling interest		1,413,876	1,295,128
Total equity		84,177,031	82,866,904
Total liabilities and shareholders' equity		132,022,615	146,236,392

Approved for issue and signed on behalf of the Management Board on September 14, 2018.


 Mr. Fuad Guliyev
 Chairman of the Board




 Mrs. Lala Afandiyeva
 Finance Director

“AZRE REINSURANCE” OJSC

Consolidated Statement of Profit or Loss and Other Comprehensive Income

<i>In Azerbaijani Manats</i>	Note	2017	2016
Gross premiums written	19	72,117,811	80,217,879
Premiums ceded	19	(9,852,671)	(24,171,074)
Premiums cancelled		(2,563,875)	(2,415,953)
Net premiums written		59,701,265	53,630,852
Decrease/(increase) in reserve for unearned premiums, gross	19	1,099,371	(2,470,397)
(Decrease)/increase in reinsurers' share of reserve for unearned premiums	19	(2,627,340)	31,841
Change in reserve for unearned premiums, net		(1,527,969)	(2,438,556)
Net premiums earned		58,173,296	51,192,296
Claims paid, gross	19	(26,525,277)	(33,461,284)
Claims recovered from reinsurers	19	857,974	2,144,100
Claims paid, net of reinsurers' share		(25,667,303)	(31,317,184)
Decrease/(Increase) in insurance loss reserves, gross	19	5,293,272	1,905,008
(Decrease)/Increase in reinsurers' share of insurance loss reserves	19	(1,269,488)	946,737
Change in loss reserve, net		4,023,784	2,851,745
Net claims incurred		(21,643,519)	(28,465,439)
Acquisition costs	20	(7,257,497)	(9,859,278)
Commission income		246,042	205,045
Commission expense		-	(80,904)
Operating expenses from Insurance Activities	22	(10,480,547)	(7,593,074)
Operating expenses from Non-Insurance Activities	21	-	(2,430,059)
Depreciation and amortisation	12	(376,793)	(1,158,477)
Interest income on deposits with banks		2,012,086	5,814,021
Interest income on debt securities		7,162,999	1,610,259
Interest expense on borrowings		-	(46,171)
Sales and services on cards		-	3,980,057
Cost of sold cards		-	(652,830)
Provision for impairment of insurance receivables		(573,026)	(613,139)
Provision for impairment of deposits with banks		-	361,706
Foreign exchange translation (loss)/gain, net		(1,315,797)	3,202,479
Provision for impairment of cash and cash equivalents		-	(473,903)
Other income net		44,180	496,702
Profit before taxation		25,991,424	15,489,291
Income tax expense		(5,552,383)	(3,137,876)
Profit for the year from continuing operations		20,439,041	12,351,415
Discontinued operations:			
Profit for the year from discontinued operations	21	371,086	-
PROFIT FOR THE YEAR		20,810,127	12,351,415
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		20,810,127	12,351,415
Total comprehensive income attributable to:			
Shareholders of Parent		20,691,379	12,173,925
Non-controlling interest		118,748	177,490
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		20,810,127	12,351,415

"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 2016	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)	-	(11,750,000)	-	(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
Total comprehensive income for the year	-	20,691,379	-	20,691,379	118,748	20,810,127
Dividends paid	-	(19,500,000)	-	(19,500,000)	-	(19,500,000)
Balance at 31 December 2017	50,000,000	29,164,504	3,598,651	82,763,155	1,413,876	84,177,031