

**OJSC “AZRE REINSURANCE”**

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

**31 December 2018**

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Independent Auditor's Report

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## Independent auditor's report

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

### Report on the audit of the consolidated financial statements

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#### 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, 2018, 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 2018;
- 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.

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#### 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 IFRS, 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*

June 21, 2019

Baku, the Republic of Azerbaijan

**“AZRE REINSURANCE” OJSC**  
**Consolidated Statement of Financial Position**

<i>In Azerbaijani Manats</i>	Note	31 December 2018	31 December 2017
<b>Assets</b>			
Cash and cash equivalents	7	15,894,516	14,655,300
Deposits with banks	8	14,780,319	31,154,949
Held-to-maturity investments	9	91,523,083	61,695,775
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	3,622,330	4,452,305
Reinsurers' share of reserves for unearned premiums	13	4,751,011	1,667,872
Reinsurers' share of insurance loss reserves	14	3,509,324	3,757,955
Deferred acquisition costs	20	2,122,810	2,813,592
Prepayment for current income tax		652,960	1,635,130
Deferred tax asset	16	831,802	1,214,115
Other non-financial assets		814,976	186,323
Property, equipment and intangible assets	12	2,273,908	2,412,958
<b>Total assets</b>		<b>147,153,380</b>	<b>132,022,615</b>
<b>Liabilities</b>			
Reserves for unearned premiums, gross	13	18,622,291	14,806,001
Insurance loss reserves, gross	14	20,583,065	28,308,682
Insurance and other payables	15	4,115,020	3,404,234
Received advances		2,384,371	662,001
Current income tax liability		1,301,790	-
Deferred tax liability	16	-	157,648
Borrowings	17	2,999,991	-
Deferred commission income		517,700	-
Other liabilities		862,760	507,018
<b>Total liabilities</b>		<b>51,386,988</b>	<b>47,845,584</b>
<b>Equity</b>			
Share capital	18	50,000,000	50,000,000
Retained earnings		44,125,031	29,164,504
Cumulative translation reserve		-	3,598,651
<b>Equity attributable to the Company's owners</b>		<b>94,125,031</b>	<b>82,763,155</b>
<b>Non-controlling interest</b>		<b>1,641,361</b>	<b>1,413,876</b>
<b>Total equity</b>		<b>95,766,392</b>	<b>84,177,031</b>
<b>Total liabilities and shareholders' equity</b>		<b>147,153,380</b>	<b>132,022,615</b>

Approved for issue and signed on behalf of the Management Board on June 21, 2019.

Mr. Vusal Abbasov  
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>	<b>Note</b>	<b>2018</b>	<b>2017</b>
Gross Premiums written	19	74,386,232	72,117,811
Premiums ceded	19	(15,790,003)	(9,852,671)
Premiums cancelled		(1,917,417)	(2,563,875)
<b>Net premiums written</b>		<b>56,678,812</b>	<b>59,701,265</b>
(Increase)/Decrease in reserve for unearned premiums, gross	19	(3,816,290)	1,099,371
Increase/(Decrease) in reinsurers' share of reserve for unearned premiums	19	3,083,139	(2,627,340)
<b>Change in reserve for unearned premiums, net</b>		<b>(733,151)</b>	<b>(1,527,969)</b>
<b>Net premiums earned</b>		<b>55,945,661</b>	<b>58,173,296</b>
Claims paid, gross	19	(23,176,813)	(26,525,277)
Claims recovered from reinsurers	19	1,582,526	857,974
<b>Claims paid, net of reinsurers' share</b>		<b>(21,594,287)</b>	<b>(25,667,303)</b>
Decrease in insurance loss reserves, gross	19	7,725,617	5,293,272
Decrease in reinsurers' share of insurance loss reserves	19	(248,631)	(1,269,488)
<b>Change in loss reserve, net</b>		<b>7,476,986</b>	<b>4,023,784</b>
<b>Net claims incurred</b>		<b>(14,117,301)</b>	<b>(21,643,519)</b>
Acquisition costs	20	(8,315,170)	(7,257,497)
Commission income		456,475	246,042
Operating expenses	21	(9,372,356)	(10,480,547)
Depreciation and amortisation	12	(726,525)	(376,793)
Interest income on deposits with banks		806,544	2,012,086
Interest income on debt securities		6,115,625	7,162,999
Provision for impairment of insurance receivables		(509,641)	(573,026)
Foreign exchange translation loss, net		(164,739)	(1,315,797)
Other income net	22	5,356,083	44,180
<b>Profit before taxation</b>		<b>35,474,656</b>	<b>25,991,424</b>
Income tax expense	16	(6,996,643)	(5,552,383)
<b>Profit for the year from continuing operations</b>		<b>28,478,013</b>	<b>20,439,041</b>
<b>Discontinued operations:</b>			
Profit for the year from discontinued operations		-	371,086
<b>PROFIT FOR THE YEAR</b>		<b>28,478,013</b>	<b>20,810,127</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>28,478,013</b>	<b>20,810,127</b>
Total comprehensive income attributable to:			
Shareholders of Parent		28,250,528	20,691,379
Non-controlling interest		227,485	118,748
<b>Total comprehensive income for the year</b>		<b>28,478,013</b>	<b>20,810,127</b>

**“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>						
<b>Balance at 1 January 2017</b>	<b>50,000,000</b>	<b>27,973,125</b>	<b>3,598,651</b>	<b>81,571,776</b>	<b>1,295,128</b>	<b>82,866,904</b>
Total comprehensive income for the year	-	20,691,379		20,691,379	118,748	20,810,127
Dividends declared	-	(19,500,000)		(19,500,000)	-	(19,500,000)
<b>Balance at 31 December 2017</b>	<b>50,000,000</b>	<b>29,164,504</b>	<b>3,598,651</b>	<b>82,763,155</b>	<b>1,413,876</b>	<b>84,177,031</b>
Transfer of Cumulative translation reserve to Statement of Profit or Loss and Other Comprehensive Income	-		(3,598,651)	(3,598,651)	-	(3,598,651)
Total comprehensive income for the year	-	28,250,527		28,250,527	227,485	28,478,012
Dividends declared	-	(13,290,000)		(13,290,000)	-	(13,290,000)
<b>Balance at 31 December 2018</b>	<b>50,000,000</b>	<b>44,125,031</b>		<b>94,125,031</b>	<b>1,641,361</b>	<b>95,766,392</b>