

OJSC "AZRE REINSURANCE"

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

31 December 2019

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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

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, 2019, 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 2019;
- 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.

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 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

July 20, 2020

Baku, the Republic of Azerbaijan

"AZRE REINSURANCE" OJSC
Consolidated Statement of Financial Position

<i>In Azerbaijani Manats</i>	Note	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	7	13,625,126	15,894,516
Deposits with banks	8	7,795,089	14,780,319
Held-to-maturity investments	9	81,704,204	91,523,083
Available-for-sale investments	10	24,054,326	5,776,341
Trading Investments	11	6,260,668	-
Mandatory reserve with Compulsory Insurance Bureau		600,000	600,000
Insurance and reinsurance receivables	12	7,823,772	3,622,330
Reinsurers' share of reserves for unearned premiums	14	5,338,059	4,751,011
Reinsurers' share of insurance loss reserves	15	2,489,282	3,509,324
Deferred acquisition costs	23	2,512,908	2,122,810
Prepayment for current income tax		662	652,960
Deferred tax asset	19	937,730	831,802
Other non-financial assets		604,530	814,976
Right-of-use assets	17	905,958	-
Property, equipment and intangible assets	18	1,800,988	2,273,908
Total assets		156,453,302	147,153,380
Liabilities			
Reserves for unearned premiums, gross	14	27,723,834	18,622,291
Insurance loss reserves, gross	15	15,884,527	20,583,065
Insurance and other payables	16	1,833,439	4,115,020
Received advances	13	5,489,561	2,384,371
Current income tax liability		1,096,984	1,301,790
Borrowings	20	-	2,999,991
Lease liabilities	17	909,684	-
Deferred commission income		189,596	517,700
Deferred tax liability		108,578	-
Other liabilities		705,620	862,760
Total liabilities		53,941,823	51,386,988
Equity			
Share capital	21	50,000,000	50,000,000
Retained earnings		50,403,427	44,125,031
Cumulative translation reserve		-	-
Other reserves	10	56,068	-
Equity attributable to the Company's owners		100,459,495	94,125,031
Non-controlling interest		2,051,984	1,641,361
Total equity		102,511,479	95,766,392
Total liabilities and shareholders' equity		156,453,302	147,153,380

Approved for issue and signed on behalf of the Management Board on July 20, 2020.

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>	Note	2019	2018
Gross Premiums written	22	82,517,134	74,386,232
Premiums ceded	22	(12,819,890)	(15,790,003)
Premiums cancelled		(1,760,290)	(1,917,417)
Net premiums written		67,936,954	56,678,812
(Increase)/Decrease in reserve for unearned premiums, gross	22	(9,101,543)	(3,816,290)
Increase/(Decrease) in reinsurers' share of reserve for unearned premiums	22	587,048	3,083,139
Change in reserve for unearned premiums, net		(8,514,495)	(733,151)
Net premiums earned		59,422,459	55,945,661
Claims paid, gross	22	(15,835,617)	(23,176,813)
Claims recovered from reinsurers	22	604,981	1,582,526
Claims paid, net of reinsurers' share		(15,230,636)	(21,594,287)
Decrease in insurance loss reserves, gross	22	4,698,538	7,725,617
Decrease in reinsurers' share of insurance loss reserves	22	(1,020,042)	(248,631)
Change in loss reserve, net		3,678,496	7,476,986
Net claims incurred		(11,552,140)	(14,117,301)
Acquisition costs	23	(7,271,689)	(8,315,170)
Commission income		734,788	456,475
Operating expenses	24	(9,992,079)	(9,372,356)
Depreciation and amortisation	17, 18	(1,084,489)	(726,525)
Interest income on deposits with banks		455,748	806,544
Interest income on debt securities		6,539,387	6,115,625
Provision for impairment of insurance receivables	12	(478,772)	(509,641)
Provision for impairment of cash and cash equivalents	7	(23,253)	-
Gains less losses from trading Investments		666,737	-
Finance cost		(137,006)	-
Impairment loss	18	(527,718)	-
Foreign exchange translation loss, net		(35,260)	(164,739)
Other income net	25	62,217	5,356,083
Profit before taxation		36,778,948	35,474,656
Income tax expense	19	(7,361,320)	(6,996,643)
PROFIT FOR THE YEAR		29,417,628	28,478,013
Other comprehensive Income/ (loss):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale investments:			
- Gains less losses arising during the year		62,298	-
Other comprehensive Income / (loss) for the year		62,298	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		29,479,926	28,478,013
Profit / (loss) is attributable to:			
- Owners of the Company		29,173,396	28,250,528
- Non-controlling interest		244,232	227,485
Profit / (loss) for the year		29,417,628	28,478,013
Total comprehensive Income / (loss) is attributable to:			
- Owners of the Company		29,229,464	28,250,528
- Non-controlling interest		250,462	227,485
Total comprehensive Income for the year		29,479,926	28,478,013

The notes set out on pages 5 to 47 form an integral part of these financial statements.

"AZRE REINSURANCE" OJSC
Consolidated Statement of Changes in Equity

<i>In Azerbaijani Manats</i>	Share capital	Retained earnings	Cumulative translation reserve	Revaluation reserve for AFS securities	Total equity attributable to the owners of the Company	Non-controlling interest	Total equity
Balance at 1 January 2018	50,000,000	29,164,504	3,598,651	-	82,763,155	1,413,876	84,177,031
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)
Balance at 31 December 2018	50,000,000	44,125,031	-	-	94,125,031	1,641,361	95,766,392
Profit / (Loss) for the year	-	29,173,396	-	-	29,173,396	244,232	29,417,628
Other comprehensive income/ (loss) for the year	-	-	-	56,068	56,068	6,230	62,298
Dividends declared	-	(22,895,000)	-	-	(22,895,000)	-	(22,895,000)
Shares issued	-	-	-	-	-	160,161	160,161
Balance at 31 December 2019	50,000,000	50,403,427	-	56,068	100,459,495	2,051,984	102,511,479