

"Marsh Insurance and Reinsurance Brokers" Limited Liability Company

Financial statements
for the year ended December 31, 2016

"MARSH INSURANCE AND REINSURANCE BROKERS" LIMITED LIABILITY COMPANY

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**"MARSH INSURANCE AND REINSURANCE BROKERS"
LIMITED LIABILITY COMPANY**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Management is responsible for the preparation of the financial statements that present fairly the financial position of "Marsh Insurance and Reinsurance Brokers" Limited Liability Company ("the Company") as of December 31, 2016, and the 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 financial statements, management is responsible for:

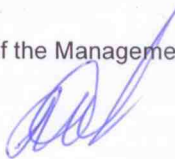
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- Making an assessment of the Company'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 Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company 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 Company; and
- Preventing and detecting fraud and other irregularities.

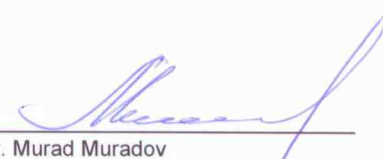
The financial statements for the year ended December 31, 2016 were approved by management on March 31, 2017.

On behalf of the Management of the Company:


Ms. Tamilla Asgarova
Director

March 31, 2017
Baku, the Republic of Azerbaijan




Mr. Murad Muradov
Chief Financial Officer

March 31, 2017
Baku, the Republic of Azerbaijan

INDEPENDENT AUDITOR'S REPORT

To the Equity holder and Management of "Marsh Insurance and Reinsurance Brokers" Limited Liability Company:

Opinion

We have audited the financial statements of "Marsh Insurance and Reinsurance Brokers" Limited Liability Company: (the "Company"), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Azerbaijan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.



March 31, 2017
Baku, the Republic of Azerbaijan

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(In thousands of Azerbaijani Manats)

On behalf of the Management of the Company

March 31, 2017
Baku, the Republic of Azerbaijan

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**“MARSH INSURANCE AND REINSURANCE BROKERS”
LIMITED LIABILITY COMPANY**

**STATEMENT OF FINANCIAL POSITION
AS AT YEAR ENDED DECEMBER 31, 2016**
(In thousands of Azerbaijani Manats)

	Notes	December 31, 2016	December 31, 2015
ASSETS			
<i>Non-current assets</i>			
Property, equipment and intangible assets	7	38	43
Deferred tax assets		-	12
Total non-current assets		<u>38</u>	<u>55</u>
<i>Current assets</i>			
Trade and other accounts receivable	8, 15	777	376
Advances paid		9	44
Cash	9	2,466	2,760
Taxes receivable, net		25	14
Total current assets		<u>3,277</u>	<u>3,194</u>
Total assets		<u>3,315</u>	<u>3,249</u>
EQUITY AND LIABILITIES			
<i>Capital and reserves</i>			
Charter capital	10	10	10
Retained earnings		1,247	917
Total equity		<u>1,257</u>	<u>927</u>
<i>Current liabilities</i>			
Trade and other accounts payable	12, 15	2,045	2,270
Deferred tax liability		13	-
Current income tax liability		-	52
Total liabilities		<u>2,058</u>	<u>2,322</u>
Total equity and liabilities		<u>3,315</u>	<u>3,249</u>

On behalf of the Management of the Company

Ms. Tamilla Asgarova
Director

March 31, 2017
Baku, the Republic of Azerbaijan



Mr. Murad Muradov
Chief Financial Officer

March 31, 2017
Baku, the Republic of Azerbaijan

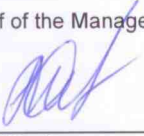
The notes on pages 8-25 form an integral part of these financial statements.

**“MARSH INSURANCE AND REINSURANCE BROKERS”
LIMITED LIABILITY COMPANY**

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016**
(In thousands of Azerbaijani Manats)

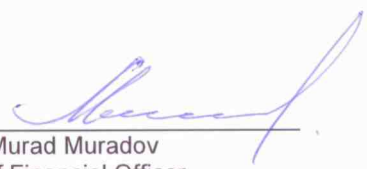
	Notes	Charter capital	Retained earnings	Total Equity
Balance at December 31, 2014		10	1,127	1,137
Dividends declared		-	(420)	(420)
Total comprehensive income for the year		-	210	210
Balance at December 31, 2015		10	917	927
Total comprehensive income for the year		-	330	330
Balance at December 31, 2016		10	1,247	1,257

On behalf of the Management of the Company:


Ms. Tamilla Asgarova
Director

March 31, 2017
Baku, the Republic of Azerbaijan




Mr. Murad Muradov
Chief Financial Officer

March 31, 2017
Baku, the Republic of Azerbaijan

The notes on pages 8-25 form an integral part of these financial statements.

**"MARSH INSURANCE AND REINSURANCE BROKERS"
LIMITED LIABILITY COMPANY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**
(In thousands of Azerbaijani Manats)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year		330	210
Adjustments for:			
Income tax expense		85	71
Depreciation and amortisation of non-current assets	7	10	27
Gain on disposal of property and equipment		(21)	-
Change in provision for doubtful debts	8	(31)	74
Net foreign exchange gain		21	(253)
Cash inflows before movement in working capital		394	129
<i>Movements in working capital:</i>			
Decrease/(increase) in advances paid		35	(7)
(Increase)/decrease in trade and other accounts receivable		(227)	186
Decrease/(increase) in taxes receivable		2	3
Decrease/(increase) in trade and other accounts payable		150	(413)
Cash generated used in/(from) operations		354	(102)
Income tax paid		(124)	(35)
Net cash generated used in/(from) operating activities		230	(137)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(565)	-
Net cash used in financing activities		(565)	-
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, equipment and intangible assets		(5)	(12)
Net cash used in investing activities		(5)	(12)
Effect of exchange rate changes on the balance of cash held in foreign currencies		46	758
NET (DECREASE)/INCREASE IN CASH		(294)	609
CASH, at the beginning of the year	9	2,760	2,151
CASH, at the end of the year	9	2,466	2,760

On behalf of the Management of the Company:

Ms. Tamilla Asgarova
Director

March 31, 2017
Baku, the Republic of Azerbaijan



Mr. Murad Muradov
Chief Financial Officer

March 31, 2017
Baku, the Republic of Azerbaijan

The notes on pages 8-25 form an integral part of these financial statements.

"MARSH INSURANCE AND REINSURANCE BROKERS" LIMITED LIABILITY COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(In thousands of Azerbaijani Manats, unless otherwise indicated)

1. GENERAL INFORMATION

"Marsh Caspian Services" Limited Liability Company was incorporated in the Republic of Azerbaijan on April 26, 2002. The Company changed legal name to "Marsh Insurance and Reinsurance Brokers" Limited Liability Company (the "Company") on December 27, 2005. The principal activities of the Company are insurance brokering and consulting services in the Republic of Azerbaijan. The Company currently operates under license of the Ministry of Finance of the Republic of Azerbaijan # 018870. The Company's operations are within the Republic of Azerbaijan.

The Company's registered address is Nizami Street 90A, Baku, AZ1000, the Republic of Azerbaijan.

As at December 31, 2016 and 2015 100% of the Company is owned by Marsh International Holdings, INC.

These financial statements were authorised for issue by the Company's management on March 31, 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of preparation

These financial statements have been prepared on the assumption that the Company is a going concern and will continue in operation for the foreseeable future.

These financial statements have been prepared on the historical cost basis except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Foreign currency transactions

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency, AZN, (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in the statement of comprehensive income in the period in which they arise.

**“MARSH INSURANCE AND REINSURANCE BROKERS”
LIMITED LIABILITY COMPANY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

(In thousands of Azerbaijani Manats, unless otherwise indicated)

Exchange rates for the currencies in which the Company transacts were as follows:

	December 31, 2016	December 31, 2015
Closing exchange rate at the year end – AZN 1 U.S. Dollar (“USD”)	1,7707	1.5594
Closing exchange rate at the year end – AZN 1 EUR	1,8644	1.7046
Closing exchange rate at the year end – AZN 1 GBP	2,1745	2.3133

Going concern

These financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future, which implies the realisation of assets and settlement of liabilities in the normal course of business.

During the reporting period the Company generated net comprehensive profit of AZN 330 thousand (2015: net comprehensive profit of AZN 210 thousand). Although the company has incurred a loss in 2014, it has recovered its position in the market in 2015 and made a net profit. The management of the Company is actively negotiating new contracts with sufficient profitability during 2017 as well and hence the Management believes that the Company will continue as a going concern for the foreseeable future.

Brokerage fee recognition

The brokerage fee is recognised in the period in which insurance and reinsurance brokerage services are provided in accordance with the terms of the contractual relationships with customers. Revenue represents the fair value of the consideration received or receivable for brokerage services provided in the normal course of business, excluding trade discounts.

Compensation and employee benefit costs

Remuneration to employees in respect of services rendered during the reporting period, including accruals for unused vacation and bonuses and related social payments, is recognised as an expense in the period when it is incurred.

In accordance with the requirements of the Republic of Azerbaijan legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the pension fund of the Republic of Azerbaijan. This expense is charged to the statement of comprehensive income in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension fund. The Company does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan. In addition, the Company has no post-retirement benefits or other significant compensated benefits requiring accrual.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**“MARSH INSURANCE AND REINSURANCE BROKERS”
LIMITED LIABILITY COMPANY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

(In thousands of Azerbaijani Manats, unless otherwise indicated)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Operating taxes

Azerbaijan also has various other taxes, which are assessed on the Company's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and amortisation and any recognised impairment loss, if any.

Depreciation and amortisation is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. Depreciation and amortisation are calculated on a straight line basis at the following annual prescribed rates:

Vehicles	4 years
Office furniture and equipment	10 years
Computer and related fixed assets	3 years
Intangible assets	10 years

An item of property, equipment and intangible assets are recognised if the total purchase cost exceeds amount of USD 1 thousand (AZN 1,7 thousand).

“MARSH INSURANCE AND REINSURANCE BROKERS” LIMITED LIABILITY COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(In thousands of Azerbaijani Manats, unless otherwise indicated)

An item of property, equipment and intangible assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, equipment and intangible assets are determined as the difference between the sales proceeds and the carrying amount of the asset and are recognised in statement of comprehensive income in the period in which property is derecognised.

Impairment of tangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in-use. In assessing value in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in statement of comprehensive income.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

Contingent liabilities attributable to specific events are disclosed unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised but are disclosed when an inflow of economic benefits is probable.

“MARSH INSURANCE AND REINSURANCE BROKERS” LIMITED LIABILITY COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(In thousands of Azerbaijani Manats, unless otherwise indicated)

Financial instruments

The Company recognises financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through statement of comprehensive income are recognised immediately in statement of comprehensive income.

Fiduciary assets and liabilities

In its capacity as an insurance broker or agent, the Company generally collects premiums from insurers and, after deducting its commissions, remits the premiums to the respective insurance underwriters. Unremitted insurance premiums proceeds are held by the Company in a fiduciary capacity. Since fiduciary assets are not available for the Company use, they are shown in the statement of financial position as an offset to fiduciary liabilities.

Financial assets

Financial assets of the Company are classified as ‘loans and receivables’ and presented in financial statements as cash and trade and other receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Trade and other accounts receivable

Trade and other accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other accounts receivable are measured at amortised cost using the effective interest method, less any impairment.

Cash

Cash includes current bank accounts. Cash is carried at amortised cost using the effective interest method.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments;

“MARSH INSURANCE AND REINSURANCE BROKERS” LIMITED LIABILITY COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(In thousands of Azerbaijani Manats, unless otherwise indicated)

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in statement of comprehensive income.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of comprehensive income.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

“MARSH INSURANCE AND REINSURANCE BROKERS” LIMITED LIABILITY COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(In thousands of Azerbaijani Manats, unless otherwise indicated)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

De-recognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in statement of comprehensive income.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Amendments to IFRSs affecting amounts reported in the financial statements. In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*;
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*;
- Amendments to IAS 1 *Disclosure Initiative*;
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*;
- IFRS 14 *Regulatory Deferral Accounts*;
- Amendments to IAS 27 – *Equity Method in Separate Financial Statements*;
- Annual Improvements to IFRSs 2012-2014 Cycle

These amendments do not have any effect on the Company's financial statements.

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New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*²;
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*²;
- IFRS 16 *Leases*³
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*²;
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*⁴;
- Amendments to IAS 7 – *Disclosure Initiative*¹;
- Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*¹;
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*²;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*²;
- Amendments to IAS 40 – *Transfers of Investment Property*²;
- Annual Improvements to IFRSs 2014-2016 Cycle.

The management of the Company does not anticipate that the application of these amendments and interpretations will have a significant impact on the financial statements except for the following:

¹ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

⁴ Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

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In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities and recognised amounts of income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of trade and other accounts receivable

The Company regularly reviews its trade and other accounts to assess for impairment. The Company's receivable impairment provisions are established to recognise incurred impairment losses in its portfolio of receivables. The Company considers accounting estimates related to allowance for impairment of receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired receivable are based on recent performance experience, and (ii) any significant difference between the Company's estimated losses and actual losses would require the Company to record provisions which could have a material impact on its financial statements in future periods.

Taxation

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years proceeding the year of tax review. Under certain circumstances reviews may cover longer periods.

While the Company believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Company.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The estimation of that probability includes judgments based on the expected performance of the Company. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position and results of operations may be negatively affected.

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5. BROKERAGE FEE

	Year ended December 31, 2016	Year ended December 31, 2015
Reinsurance brokerage fee	760	687
Insurance brokerage fee	535	94
Consultancy	44	98
Total brokerage fee	1,339	879

The reinsurance brokerage fee earned from operations with related parties amounted to AZN 178 thousand and AZN 185 thousand for the years ended December 31, 2016 and 2015, respectively (see Note 15).

6. OPERATING EXPENSES

	Year ended December 31, 2016	Year ended December 31, 2015
Staff costs	403	353
Operating leases	192	134
Management fee for technical assistance	121	75
Professional services	90	63
Utility and other office expenses	36	58
Change in provision for doubtful debts (Note 9)	22	74
Bank charges	14	20
Representative expenses	12	9
Depreciation and amortization	10	27
Written off receivables	-	16
Other operating expenses	53	22
Total operating expenses	953	851

The Company is obligated to pay management fee for technical assistance to the related party, Marsh LTD. This amounted to AZN 121 thousand and AZN 75 thousand for the years ended December 31, 2016 and 2015, respectively (Note 15).

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7. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Vehicles	Office furniture and equipment	Computers and related fixed assets	Intangibles	Total
Cost					
Balance at December 31, 2014	209	18	43	29	299
Additions	-	-	12	-	12
Balance at December 31, 2015	209	18	55	29	311
Additions	-	-	5	-	5
Disposals	(78)	-	-	-	(78)
Balance at December 31, 2016	131	18	60	29	238
Accumulated depreciation/amortisation					
Balance at December 31, 2014	(195)	(8)	(31)	(7)	(241)
Charge for the period	(14)	(1)	(10)	(2)	(27)
Balance at December 31, 2015	(209)	(9)	(41)	(9)	(268)
Charge for the period	-	(2)	(6)	(2)	(10)
Disposals	78	-	-	-	78
Balance at December 31, 2016	(131)	(11)	(47)	(11)	(200)
Net book value					
As at December 31, 2016	-	7	13	18	38
As at December 31, 2015	-	9	14	20	43

As at December 31, 2016 and 2015, cost of fully depreciated property and equipment comprised of AZN 252 thousand and AZN 222 thousand, respectively.

8. TRADE AND OTHER ACCOUNTS RECEIVABLE

	December 31, 2016	December 31, 2015
Trade and other accounts receivable, gross	886	516
Allowance for doubtful debts	(109)	(140)
Total trade and other accounts receivable	777	376

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Aging analysis of trade and other accounts receivable is presented in the table below:

	December 31, 2016	December 31, 2015
Not past due		
Up to 1 month	133	173
Past due but not impaired		
1 month to 3 months	326	17
3 months to 6 months	59	15
6 months to 12 months	241	171
Total past due but not impaired	626	203
Impaired		
3 months to 6 months	24	3
6 months to 12 months	15	7
More than a year	88	130
Total impaired	127	140
Total trade and other accounts receivable, gross	886	516

The gross trade and other accounts receivable from related parties amounted to AZN 369 thousand and AZN 276 thousand as at December 31, 2016 and 2015, respectively (Note 15).

The Company performs an on-going assessment of the collectability of trade and other accounts receivable.

The average credit period is 30 days while actually the customer is required to pay in accordance with specific contractual terms. No interest is charged on trade and other accounts receivable.

In determining the recoverability of a trade and other accounts receivable, the Company considers any change in the credit quality of the trade and other accounts receivable from the date credit was initially granted up to the end of the reporting period. The Company has recognised an allowance for doubtful debts of 50% against all receivables over 120 days and 100% against all receivables over 360 days because historical experience has been that receivables that are past due beyond 360 days are not recoverable.

Movement in the allowance for doubtful debts:

	2016	2015
Balance at beginning of the year	140	66
Change in provision for doubtful debts	22	74
Write off	(53)	-
Balance at end of the year	109	140

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9. CASH

	December 31, 2016	December 31, 2015
Fiduciary bank accounts	1,860	1,575
Corporate bank accounts	606	1,185
Total cash	2,466	2,760

Fiduciary accounts are held for collection of insurance premiums which are payable to insurers. But these accounts are not blocked, and can be used by the Company.

10. CHARTER CAPITAL

As at December 31, 2016 and 2015 charter capital of the company amounted to AZN 10 thousand.

11. DIVIDENDS PAID

On December 14, 2015, a dividend of USD 4,00 (AZN 4,20) per share (total dividend of USD 400 thousand – AZN 420 thousand) was declared in respect of the year ended December 31, 2014.

On January 13, 2016, the Company paid dividend in amount of AZN 565 thousand, which was earlier declared on December 14, 2015. Increase in dividend was due to devaluation of AZN against USD.

No dividend was declared during year 2016.

12. TRADE AND OTHER ACCOUNTS PAYABLE

	December 31, 2016	December 31, 2015
Payables from insurance operations (Note 15)	1,716	1,464
Dividend payable	-	624
Accrued expenses	155	54
Other payables	174	128
Total trade and other accounts payable	2,045	2,270

Trade and other accounts payable principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for the trade purchases is 30 days. No interest is charged on the outstanding balance for accounts payable. The management considers that the carrying amount of trade and other accounts payable approximates to their fair value.

The gross trade and other accounts payable to related parties amounted to AZN 1,764 thousand and 1,346 thousand as at December 31, 2016 and 2015, respectively (Note 15).

The maturity of trade and other accounts payable is disclosed in Note 14.

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13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company uses the following hierarchy to determine and disclose fair value of financial instruments:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The management believes that the fair value of the Company's financial assets and liabilities, which are classified within Level 2 category of the above hierarchy, approximates their carrying amounts. The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

14. FINANCIAL RISK MANAGEMENT

Capital management

The Company manages its capital to ensure that the Company will be able to continue as going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

Capital structure of the Company consists of debt and equity (comprising issued capital and retained earnings).

The Company is not subject to any externally imposed capital requirements.

Categories of financial instruments

The Company's principal financial liabilities comprise trade and other accounts payable. Financial assets are represented by current bank accounts and trade and other accounts receivable. All financial instruments held by the Company are recorded at amortised cost.

The main risks arising from the Company's financial instruments are credit, currency and liquidity risks.

Foreign currency risk management

The Company undertakes transactions denominated in foreign currencies, consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Company's foreign currency denominated financial assets and financial liabilities at the end of the reporting period are as follows:

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	AZN	USD USD 1 = AZN 1.7707	EUR EUR = AZN 1.8644	GBP GBP = AZN 2.1745	December 31, 2016 Total
Financial assets					
Cash	322	1,954	109	81	2,466
Trade and other accounts receivable	27	842	11	6	886
Total financial assets	349	2,796	120	87	3,352
Financial liabilities					
Trade and other accounts payable	194	1,803	48	-	2,045
Total financial liabilities	194	1,803	48	-	2,045
OPEN POSITION	155	993	72	87	

	AZN	USD USD 1 = AZN 1.5594	EUR EUR = AZN 1.7046	GBP GBP = AZN 2.3133	December 31, 2015 Total
Financial assets					
Cash	454	2,211	81	14	2,760
Trade and other accounts receivable	34	459	17	6	516
Total financial assets	488	2,670	98	20	3,276
Financial liabilities					
Trade and other accounts payable	81	1,540	25	-	1,646
Dividend payable	-	624	-	-	624
Total financial liabilities	81	2,164	25	-	2,270
OPEN POSITION	407	506	73	20	

Currency risk sensitivity

The following table details the Company's sensitivity to a 40% (2015: 40%) increase and decrease in the AZN against USD. 40% (2015: 40%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 40% (2015: 40%) change in foreign currency rates. The sensitivity analysis includes trade and other accounts payable with the Company where the denomination of the payable is in a currency other than the functional currency of the Company. A positive number below indicates an increase (2015: increase) in profit where the AZN strengthens 40% (2015: 40%) against the relevant currency. For a 40% (2015: 40%) weakening of the AZN against the relevant currency, there would be a negative (2015: negative) impact on the profit and other equity, and the balances below would be negative.

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The impact on net profit and equity based on asset values as at December 31, 2016 and 2015, respectively:

	Profit or loss	
	December 31, 2016	December 31, 2015
USD	397	249
EUR	29	29
GBP	35	8

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. Financial assets which are potentially subject to concentration of credit risk consist principally of current bank accounts and trade and other accounts receivable.

As at December 31, 2016 the carrying value of current bank accounts (Note 9) amounted to AZN 2,466 thousand and maximum exposure to credit risk of current bank accounts equal to its carrying value (December 31, 2015: AZN 2,760 thousand).

Trade receivables consist of number of customers. The Company's largest customer represents 18% and 29% of trade and other accounts receivable as at December 31, 2016 and 2015, respectively. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

As at December 31, 2016 and 2015 the Company has not experienced any credit losses with respect to its trade accounts receivable and management believes that all trade accounts receivable are fully collectible.

Liquidity risk management

Liquidity risk is the risk that the Company will not be able to settle all liabilities as they are due. The Company's liquidity position is monitored and managed. The Company has a detailed budgeting and cash forecasting process in place to ensure that it has adequate cash available to meet its payment obligations. In addition, the Company manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay:

	Less than 1 month	Total
December 31, 2016		
Non-interest bearing		
Trade and other accounts payable	2,045	2,045
Total financial liabilities	2,045	2,045
December 31, 2015		
Non-interest bearing		
Trade and other accounts payable	2,270	2,270
Total financial liabilities	2,270	2,270

15. RELATED PARTY TRANSACTIONS

Details of transactions between the Company and related parties are disclosed below:

		Year ended December 31, 2016		Year ended December 31, 2015	
	Note	Related party transactions	Total category as per the financial statements	Related party transactions	Total category as per the financial statements
Brokerage fee	5		1,339		879
- entities under common control		178		185	
Operating expenses	6		953		851
- entities under common control		121		75	
- key management		46		4	

		December 31, 2016		December 31, 2015	
	Note	Related party balances	Total category as per the financial statements	Related party balances	Total category as per the financial statements
Trade and other accounts receivable	8		886		516
- entities under common control		369		276	
Trade and other accounts payable	12		2,045		2,270
- entities under common control		1,764		1,346	
- key management		-		-	

The remuneration of key management is short-term and is determined having regard to the performance of individuals and market trends.

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16. COMMITMENTS AND CONTINGENCIES

Operating environment – Emerging markets such as Azerbaijan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Azerbaijan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future stability of the Azerbaijan economy is heavily influenced by reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Because Azerbaijan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in 2016, the oil price decreased significantly. As a result, during 2015 and 2016 Azerbaijani manat was devalued against the US dollar and other major currencies. As a result, in December 2015 the Central Bank of the Republic of Azerbaijan announced floating exchange rate. In January 2016 Standard & Poor's, international credit agency, downgraded long-term and short-term foreign and national currency sovereign rating to the speculative level.

These events resulted in worsening of liquidity in the banking system and much tighter credit conditions. There continues to be uncertainty regarding economic growth, access to capital and cost of capital which could adversely affect the Group's future results and financial position and business prospects including deterioration of the quality of the loan portfolio, with increases in non-performing loans and decreases in loan collateral values, and losses on investment securities in a manner not currently determinable.

The Azerbaijani government announced plans to accelerate reforms and support to banking system in response to current economic challenges. The Group's management is monitoring developments in the current environment and taking measures to support the sustainability and development of the Group's business in the foreseeable future.

Legal proceedings – From time to time and in the normal course of business, claims against the Company are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation – Laws and regulations affecting business in the Republic of Azerbaijan continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Company may be challenged by the relevant authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. Where uncertainty exists, the Company has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.