

INDEPENDENT AUDITOR'S REPORT

To the Management Board and Shareholders of Open Joint Stock Company "AzRe Reinsurance":

We have audited the accompanying consolidated financial statements of the "AzRe Reinsurance" and its subsidiaries (collectively – "the Group"), which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche.

July 21, 2014

Baku, the Republic of Azerbaijan

OPEN JOINT STOCK COMPANY "AZRE REINSURANCE"

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2013

(in Azerbaijan Manats)

	Notes	Year ended December 31, 2013	Year ended December 31, 2012
Gross premiums written	5	47,913,805	36,039,528
Premiums ceded	5	(8,654,761)	(7,493,988)
Premiums cancelled	5	(393,405)	(1,427,406)
NET PREMIUMS		38,865,639	27,118,134
Change in reserves for unearned premiums, gross	5	(2,458,053)	(2,071,582)
Change in reinsurers' share of reserves for unearned premiums	5	413,893	(49,355)
CHANGE IN RESERVES FOR UNEARNED PREMIUMS, NET		(2,044,160)	(2,120,937)
NET PREMIUMS EARNED		36,821,479	24,997,197
Gross claims paid	5	(10,087,820)	(9,204,505)
CLAIMS PAID, NET		(10,087,820)	(9,204,505)
Change in loss reserves, gross	5	(12,097,604)	(5,250,249)
Change in reinsurers' share of loss reserves	5	(195,879)	421,371
CHANGE IN LOSS RESERVES, NET		(12,293,483)	(4,828,878)
NET CLAIMS INCURRED		(22,381,303)	(14,033,383)
Acquisition costs	6	(5,984,538)	(4,466,857)
Commission income on reinsurance contracts		147,332	58,774
Operating expenses	7,19	(3,551,306)	(2,264,176)
Interest income on deposits with bank		4,065,139	3,045,182
Interest income on held-to-maturity investments		293,424	527,319
Reversal of provision for impairment of insurance receivables	12	-	1,003,443
Reversal of provision/(provision) for impairment of deposits with banks	10	809,405	(1,709,405)
Foreign exchange translation loss, net		(57,691)	(22,018)
Loss on initial recognition of held-to-maturity investments		(6,444)	(4,373)
Other income, net		-	54,258
PROFIT BEFORE TAX		10,155,497	7,185,961
Income tax expense	7	(2,060,317)	(1,450,855)
NET PROFIT FOR THE YEAR		8,095,180	5,735,106
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		8,095,180	5,735,106
Total comprehensive income attributable to:			
Shareholders of the Parent		7,918,794	5,684,070
Non-controlling interest		176,386	51,036
TOTAL COMPREHENSIVE INCOME		8,095,180	5,735,106

On behalf of the Management Board:

Mr. Fuad Guliyev,
Chairman of the Board

July 21, 2014
Baku, the Republic of Azerbaijan

Mrs.Lala Afandiyeva
Finance Director

July 21, 2014
Baku, the Republic of Azerbaijan

The notes on pages 7-50 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY "AZRE REINSURANCE"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2013 (in Azerbaijan Manats)

	Notes	December 31, 2013	December 31, 2012
ASSETS			
Cash and cash equivalents	9	20,102,514	11,847,781
Deposits with banks	10	46,451,205	38,752,054
Held-to-maturity investments	11	3,796,400	3,298,100
Insurance and reinsurance receivables	12	6,902,268	3,855,396
Reinsurers' share of reserves for unearned premiums	14	1,731,422	1,317,529
Reinsurers' share of insurance loss reserves	15	305,619	501,498
Deferred acquisition costs	6	1,963,361	1,528,021
Prepayment for current income tax		-	1,831,523
Deferred tax asset	8	347,296	301,977
Property, equipment and intangible assets	13	1,278,239	1,224,789
Other non-financial assets		419,748	305,401
TOTAL ASSETS		83,298,072	64,764,069
LIABILITIES AND EQUITY			
LIABILITIES:			
Reserves for unearned premiums, gross	14	10,783,908	8,325,855
Insurance loss reserves, gross	15	21,479,764	9,382,160
Reinsurance and commissions payable	16	867,800	481,193
Current income tax liability		416,388	-
Other non-financial liabilities		129,385	49,214
TOTAL LIABILITIES		33,677,245	18,238,422
EQUITY:			
Equity attributable to owners of the Company:			
Share capital	17	40,000,000	40,000,000
Retained earnings		8,827,476	5,908,682
Total equity attributable to owners of the Company		48,827,476	45,908,682
Non-controlling interest		793,351	616,965
TOTAL EQUITY		49,620,827	46,525,647
TOTAL LIABILITIES AND EQUITY		83,298,072	64,764,069

On behalf of the Management Board:




 Mr. Fuad Guliyev
 Chairman of the Board
 July 21, 2014
 Baku, the Republic of Azerbaijan



 Mrs. Lala Afandiyeva
 Finance Director
 July 21, 2014
 Baku, the Republic of Azerbaijan


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OPEN JOINT STOCK COMPANY "AZRE REINSURANCE"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2013 (in Azerbaijan Manats)

	Share Capital	Retained earnings	Total equity attributable to owners of the Company	Non- controlling interest	Total Equity
December 31, 2011	40,000,000	224,612	40,224,612	565,929	40,790,541
Total comprehensive income for the year	-	5,684,070	5,684,070	51,036	5,735,106
December 31, 2012	40,000,000	5,908,682	45,908,682	616,965	46,525,647
Total comprehensive income for the year	-	7,918,794	7,918,794	176,386	8,095,180
Dividends paid	-	(5,000,000)	(5,000,000)	-	(5,000,000)
December 31, 2013	<u>40,000,000</u>	<u>8,827,476</u>	<u>48,827,476</u>	<u>793,351</u>	<u>49,620,827</u>

On behalf of the Management Board:


Mr. Fuad Guliyev
Chairman of the Board

July 21, 2014
Baku, the Republic of Azerbaijan


Mrs. Lala Afandiyeva
Finance Director

July 21, 2014
Baku, the Republic of Azerbaijan

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OPEN JOINT STOCK COMPANY "AZRE REINSURANCE"

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2013

(in Azerbaijan Manats)

	Notes	Year ended December 31, 2013	Year ended December 31, 2012
CASH FLOW FROM OPERATING ACTIVITIES:			
Gross premiums received		44,473,528	35,119,068
Ceded premiums paid		(8,185,895)	(7,857,502)
Gross claims paid		(10,023,099)	(9,204,505)
Acquisition cost paid		(6,566,858)	(4,712,844)
Commission income received		147,332	35,586
Operating expenses paid		(2,891,601)	(2,122,447)
Interest income received		3,442,690	3,389,770
Other income, net		-	54,258
Cash flows from operating activities before changes in operating assets and liabilities		20,396,097	14,701,384
Changes in operating assets:			
Net increase/(decrease) in other assets		6,597	(106,972)
Net cash generated from operating activities before income tax		20,402,694	14,594,412
Income tax paid		(237,939)	(240,468)
Net cash generated from operating activities		20,164,755	14,353,944
CASH FLOW FROM INVESTING ACTIVITIES:			
Acquisition of property, equipment and intangible assets	13	(262,391)	(1,163,788)
Proceeds from disposal of property, equipment and intangible assets		19,844	82,415
Proceeds from matured deposits in banks		30,796,444	24,652,096
Payments for placements of deposits in banks		(36,901,486)	(33,411,840)
Proceeds on redemption of held-to-maturity investments		2,000,950	7,028,627
Payments for held-to-maturity investments		(2,499,250)	(4,298,100)
Net cash used in investing activities		(6,845,889)	(7,110,590)
CASH FLOW FROM FINANCING ACTIVITIES:			
Dividends paid		(5,000,000)	-
Net cash used in financing activities		(5,000,000)	-
Effect of exchange rate changes on the balance of cash held in foreign currencies		(64,133)	(33,825)
NET INCREASE IN CASH AND CASH EQUIVALENTS		8,254,733	7,209,529
CASH AND CASH EQUIVALENTS at the beginning of the year	9	11,847,781	4,638,252
CASH AND CASH EQUIVALENTS at the end of the year	9	20,102,514	11,847,781

On behalf of the Management Board:

Mr. Fuad Guliyev
Chairman of the Board

July 21, 2014
Baku, the Republic of Azerbaijan



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