

## 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, 2014, 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, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



August 3, 2015  
Baku, the Republic of Azerbaijan

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## OPEN JOINT STOCK COMPANY "AZRE REINSURANCE"

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2014 (in Azerbaijan Manats)

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
Gross premiums written	5	70,093,407	47,913,805
Premiums ceded	5	(13,207,226)	(8,654,761)
Premiums cancelled	5	(941,261)	(393,405)
<b>NET PREMIUMS</b>		<b>55,944,920</b>	<b>38,865,639</b>
Change in reserves for unearned premiums, gross	5	(3,001,663)	(2,458,053)
Change in reinsurers' share of reserves for unearned premiums	5	3,251,703	413,893
<b>CHANGE IN RESERVES FOR UNEARNED PREMIUMS, NET</b>		<b>250,040</b>	<b>(2,044,160)</b>
<b>NET PREMIUMS EARNED</b>		<b>56,194,960</b>	<b>36,821,479</b>
Gross claims paid	5	(13,349,340)	(10,087,820)
Claims ceded to reinsurers	5	149,004	-
<b>CLAIMS PAID, NET OF REINSURERS' SHARE</b>		<b>(13,200,336)</b>	<b>(10,087,820)</b>
Change in loss reserves, gross	5	(9,021,015)	(12,097,604)
Change in reinsurers' share of loss reserves	5	1,900,917	(195,879)
<b>CHANGE IN LOSS RESERVES, NET</b>		<b>(7,120,098)</b>	<b>(12,293,483)</b>
<b>NET CLAIMS INCURRED</b>		<b>(20,320,434)</b>	<b>(22,381,303)</b>
Acquisition costs	6	(7,724,772)	(5,984,538)
Commission income on reinsurance contracts		44,566	147,332
Operating expenses	7,20	(4,582,857)	(3,551,306)
Interest income on deposits with bank		5,149,217	4,065,139
Interest income on held-to-maturity investments		236,831	293,424
Provision for impairment of cash and cash equivalents	9	(885,318)	-
(Provision)/reversal of provision for impairment of deposits with banks	10	(1,219,166)	809,405
Foreign exchange translation loss, net		(91,608)	(57,691)
Gain/(loss) on sale of held-to-maturity investments		33,380	(6,444)
Other expense, net		(27,841)	-
<b>PROFIT BEFORE TAX</b>		<b>26,806,958</b>	<b>10,155,497</b>
Income tax expense	8	(5,365,530)	(2,060,317)
<b>NET PROFIT FOR THE YEAR</b>		<b>21,441,428</b>	<b>8,095,180</b>
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>21,441,428</b>	<b>8,095,180</b>
Total comprehensive income attributable to:			
Shareholders of the Parent		21,351,641	7,918,794
Non-controlling interest		89,787	176,386
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>21,441,428</b>	<b>8,095,180</b>

On behalf of the Management Board:

Mr. Fuad Galiyev  
Chairman of the Board

August 3, 2015  
Baku, the Republic of Azerbaijan

Mrs. Lala Afandiyeva  
Finance Director

August 3, 2015  
Baku, the Republic of Azerbaijan

The notes on pages 7-52 form an integral part of these consolidated financial statements.

# OPEN JOINT STOCK COMPANY "AZRE REINSURANCE"

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2014 (in Azerbaijan Manats)

	Notes	December 31, 2014	December 31, 2013
<b>ASSETS</b>			
Cash and cash equivalents	9	12,887,322	20,102,514
Deposits with banks	10	72,172,161	46,451,205
Held-to-maturity investments	11	1,450,872	3,796,400
Available for sale investments	12	5,776,341	-
Insurance and reinsurance receivables	13	9,893,145	6,902,268
Reinsurers' share of reserves for unearned premiums	15	4,983,125	1,731,422
Reinsurers' share of insurance loss reserves	16	2,206,536	305,619
Deferred acquisition costs	6	1,797,062	1,963,361
Deferred tax asset	8	621,337	347,296
Property, equipment and intangible assets	14	1,458,679	1,278,239
Other non-financial assets		581,071	419,748
<b>TOTAL ASSETS</b>		<b>113,827,651</b>	<b>83,298,072</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Reserves for unearned premiums, gross	15	13,785,571	10,783,908
Insurance loss reserves, gross	16	30,500,779	21,479,764
Reinsurance and commissions payable	17	798,226	867,800
Current income tax liability		1,535,779	416,388
Deferred tax liability	8	1,999,350	-
Other non-financial liabilities		145,691	129,385
<b>TOTAL LIABILITIES</b>		<b>48,765,396</b>	<b>33,677,245</b>
<b>EQUITY:</b>			
Equity attributable to owners of the Company:			
Share capital	18	40,000,000	40,000,000
Retained earnings		24,179,117	8,827,476
<b>Total equity attributable to owners of the Company</b>		<b>64,179,117</b>	<b>48,827,476</b>
Non-controlling interest		883,138	793,351
<b>TOTAL EQUITY</b>		<b>65,062,255</b>	<b>49,620,827</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>113,827,651</b>	<b>83,298,072</b>

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## OPEN JOINT STOCK COMPANY "AZRE REINSURANCE"

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2014 (in Azerbaijan Manats)

	Share Capital	Retained earnings	Total equity attributable to owners of the Company	Non- controlling interest	Total Equity
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 (Note 18)	-	(5,000,000)	(5,000,000)	-	(5,000,000)
December 31, 2013	40,000,000	8,827,476	48,827,476	793,351	49,620,827
Total comprehensive income for the year	-	21,351,641	21,351,641	89,787	21,441,428
Dividends paid (Note 18)	-	(6,000,000)	(6,000,000)	-	(6,000,000)
December 31, 2014	<u>40,000,000</u>	<u>24,179,117</u>	<u>64,179,117</u>	<u>883,138</u>	<u>65,062,255</u>

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## OPEN JOINT STOCK COMPANY "AZRE REINSURANCE"

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2014 (in Azerbaijan Manats)

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Gross premiums received		66,161,269	44,473,528
Ceded premiums paid		(13,357,058)	(8,185,895)
Gross claims paid		(13,181,516)	(10,023,099)
Acquisition cost paid		(7,497,035)	(6,566,858)
Commission income received		44,566	147,332
Operating expenses paid		(4,191,354)	(2,891,601)
Interest income received		5,144,500	3,442,690
Other expense, net		(27,841)	-
Cash flows from operating activities before changes in operating assets and liabilities		33,095,531	20,396,097
Changes in operating assets:			
Net increase/(decrease) in other assets		(181,311)	6,597
Net cash generated from operating activities before income tax		32,914,220	20,402,694
Income tax paid		(2,520,830)	(237,939)
Net cash generated from operating activities		30,393,390	20,164,755
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Acquisition of property, equipment and intangible assets	14	(398,104)	(262,391)
Proceeds from disposal of property, equipment and intangible assets		-	19,844
Proceeds from matured deposits in banks		30,796,444	30,796,444
Payments for placements of deposits in banks		(57,626,186)	(36,901,486)
Proceeds on redemption of held-to-maturity investments		3,296,528	2,000,950
Payments for held-to-maturity investments		(951,000)	(2,499,250)
Payments for available for sale investments		(5,776,341)	-
Net cash used in investing activities		(30,658,659)	(6,845,889)
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>			
Dividends paid		(6,000,000)	(5,000,000)
Net cash used in financing activities		(6,000,000)	(5,000,000)
Effect of exchange rate changes on the balance of cash held in foreign currencies		(64,605)	(64,133)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(6,329,874)	8,254,733
CASH AND CASH EQUIVALENTS at the beginning of the year	9	20,102,514	11,847,781
CASH AND CASH EQUIVALENTS at the end of the year	9	13,772,640	20,102,514

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