

**OPEN JOINT STOCK
COMPANY “AZRE
REINSURANCE”**

Consolidated Financial Statements
For the Year Ended December 31, 2012

OPEN JOINT STOCK COMPANY “AZRE REINSURANCE”

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OPEN JOINT STOCK COMPANY "AZRE REINSURANCE"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the "AzRe Reinsurance" OJSC and its subsidiary ("the Group") as at December 31, 2012, and the consolidated 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 consolidated 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 Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

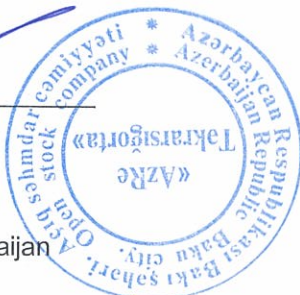
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group 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 Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended December 31, 2012 were approved by Management Board on September 20, 2013:

On behalf of the Management Board:


Mr. Fuad Guliyev
Chairman of the Board

September 20, 2013
Baku, the Republic of Azerbaijan




Mrs. Lala Afandiyeva
Finance Director

September 20, 2013
Baku, the Republic of Azerbaijan

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of the "AzRe Reinsurance" and its subsidiary (collectively – "the Group"), which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of 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, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2011 were audited by another auditor who expressed an unmodified opinion on those statements on January 15, 2013. As part of our audit of the consolidated financial statements as at December 31, 2012 and for the year then ended, we also audited the adjustments described in Note 4 that were applied to amend the corresponding figures. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements of the Group as at December 31, 2011 and for the year then ended other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements as of December 31, 2011 and for the year then ended taken as a whole.

Emphasis of matter

Without qualifying our audit opinion, we draw attention to Note 4 to the consolidated financial statements which describes the restatement of the corresponding figures as at December 31, 2011 and for the year then ended.

Deloitte & Touche.

September 20, 2013
Baku, the Republic of Azerbaijan

OPEN JOINT STOCK COMPANY “AZRE REINSURANCE”

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2012

(in Azerbaijan Manats)

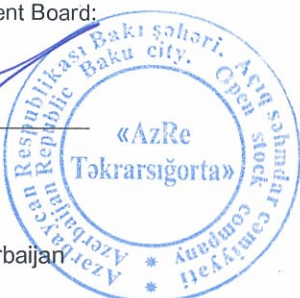
	Notes	Year ended December 31, 2012	Year ended December 31, 2011*
Gross premiums written	5	36,039,528	29,570,448
Premiums ceded	5	(7,493,988)	(1,979,621)
Premiums cancelled	5	(1,427,406)	(440,170)
NET PREMIUMS		27,118,134	27,150,657
Change in reserves for unearned premiums, gross	5,14	(2,071,582)	(3,103,439)
Change in reinsurers' share of reserves for unearned premiums	5,14	(49,355)	760,506
CHANGE IN RESERVES FOR UNEARNED PREMIUMS, NET		(2,120,937)	(2,342,933)
NET PREMIUMS EARNED		24,997,197	24,807,724
Gross claims paid	5	(9,204,505)	(7,599,272)
CLAIMS PAID, NET		(9,204,505)	(7,599,272)
Change in loss reserves, gross	5,15	(5,250,249)	544,627
Change in reinsurers' share of loss reserves	5,15	421,371	(33,691)
CHANGE IN LOSS RESERVES, NET		(4,828,878)	510,936
NET CLAIMS INCURRED		(14,033,383)	(7,088,336)
Acquisition costs	6	(4,466,857)	(3,475,897)
Commission income on reinsurance contracts		58,774	-
Operating expenses	7,19	(2,264,176)	(2,012,747)
Interest income on deposits with bank		3,045,182	3,353,391
Interest income on debt securities		527,319	34,179
Reversal of provision/(provision) for impairment of insurance receivables	12	1,003,443	(1,003,443)
Provision for impairment of deposits with banks	10	(1,709,405)	-
Foreign exchange translation loss, net		(22,018)	-
Loss on initial recognition of held-to-maturity investments		(4,373)	(168,550)
Other income/(expense), net		54,258	(64,428)
PROFIT BEFORE TAX		7,185,961	14,381,893
Income tax (expense)/benefit	8	(1,450,855)	218,244
NET PROFIT FOR THE YEAR		5,735,106	14,600,137
Net profit attributable to:			
Shareholders of Parent		5,684,070	14,533,797
Non-controlling interest		51,036	66,340
TOTAL COMPREHENSIVE INCOME		5,735,106	14,600,137

*As restated, see Note 4

On behalf of the Management Board:

Mr. Fuad Guliyev
Chairman of the Board

September 20, 2013
Baku, the Republic of Azerbaijan



Mrs. Lala Afandiyeva
Finance Director

September 20, 2013
Baku, the Republic of Azerbaijan

The notes on pages 8-51 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY “AZRE REINSURANCE”

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2012

(in Azerbaijan Manats)

	Notes	December 31, 2012	December 31, 2011*	January 1, 2011
ASSETS				
Cash and cash equivalents	9	11,847,781	4,638,252	1,401,527
Deposits with banks	10	38,752,054	31,523,934	28,896,045
Held-to-maturity investments	11	3,298,100	6,033,000	499,799
Insurance and reinsurance receivables	12	3,855,396	3,343,306	1,454,583
Reinsurers' share of reserves for unearned premiums	14	1,317,529	1,366,884	599,112
Reinsurers' share of insurance loss reserves	15	501,498	80,127	113,818
Deferred acquisition costs	6	1,528,021	1,133,890	814,572
Prepayment for current income tax		1,831,523	3,010,833	-
Deferred tax asset	8	301,977	333,054	24,593
Other assets		305,401	265,312	340,931
Property, equipment and intangible assets	13	1,224,789	229,161	118,238
TOTAL ASSETS		64,764,069	51,957,753	34,263,218
LIABILITIES AND EQUITY				
LIABILITIES:				
Reserves for unearned premiums, gross	14	8,325,855	6,254,273	3,143,568
Insurance loss reserves, gross	15	9,382,160	4,131,911	4,676,538
Reinsurance and commissions payable	16	481,193	697,727	262,133
Other liabilities		49,214	83,301	87,775
TOTAL LIABILITIES		18,238,422	11,167,212	8,170,014
EQUITY:				
Share capital	17	40,000,000	40,000,000	25,800,000
Retained earnings		5,908,682	224,612	(109,185)
Non-controlling interest		616,965	565,929	402,389
TOTAL EQUITY		46,525,647	40,790,541	26,093,204
TOTAL LIABILITIES AND EQUITY		64,764,069	51,957,753	34,263,218

*As restated, see Note 4

On behalf of the Management Board:

Mr. Fuad Guliyev
Chairman of the Board

September 20, 2013
Baku, the Republic of Azerbaijan



Mrs. Lala Afandiyeva
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September 20, 2013
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OPEN JOINT STOCK COMPANY “AZRE REINSURANCE”

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2012 (in Azerbaijan Manats)

	Share Capital	(Accumulated deficit)/ retained earnings	Non-controlling interest	Total Equity
December 31, 2010	25,800,000	(109,185)	402,389	26,093,204
Total comprehensive income for the year*	-	14,533,797	66,340	14,600,137
Increase in the share capital of subsidiary	-	-	97,200	97,200
Capitalisation of retained earnings Parent	14,200,000	(14,200,000)	-	-
December 31, 2011*	40,000,000	224,612	565,929	40,790,541
Total comprehensive income for the year	-	5,684,070	51,036	5,735,106
December 31, 2012	40,000,000	5,908,682	616,965	46,525,647

*As restated, see Note 4

On behalf of the Management Board:


Mr. Fuad Guliyev
Chairman of the Board

September 20, 2013
Baku, the Republic of Azerbaijan




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