

Independent auditors' report

To the Shareholder and Board of Directors of PASHA Life Insurance OJSC:

We have audited the accompanying financial statements of PASHA Life Insurance OJSC, which comprise the statement of financial position as of 31 December 2012, and the statement of comprehensive income, statement of changes in equity and 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 financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of PASHA Life Insurance OJSC as of 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

14 May 2013

STATEMENT OF FINANCIAL POSITION**As of 31 December 2012***(Thousands of Azerbaijani Manats)*

	<i>Notes</i>	2012	2011
Assets			
Cash and cash equivalents	6	2,790	721
Amounts due from credit institutions	7	24,813	12,791
Insurance receivables	8	680	328
Deferred acquisition costs	9	24	165
Reinsurance assets	14	212	764
Deferred income tax assets	10	–	25
Property and equipment	11	300	180
Intangible assets	12	32	27
Other assets	13	146	78
Total assets		28,997	15,079
Liabilities			
Insurance contracts liabilities	14	5,869	5,539
Reinsurance and other payables	15	540	207
Dividends payable	17	–	250
Current income tax liability		773	49
Deferred income tax liabilities	10	583	–
Other liabilities	16	794	374
Total liabilities		8,559	6,419
Equity			
Share capital	17	15,050	7,000
Retained earnings		5,388	1,660
Total equity		20,438	8,660
Total liabilities and equity		28,997	15,079

Signed and authorized for release on behalf of the Management Board:

Chairman of the Management Board

M. Rustamov

Mr. Mursal Rustamov

Chief Accountant

O. Guliyev

Mr. Perviz Guliyev



14 May 2013

The accompanying notes on pages 5 to 39 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME**For the year ended 31 December 2012***(Thousands of Azerbaijani Manats)*

	Notes	2012	2011
Gross premiums written	19	10,554	8,217
Premiums ceded to reinsurers	19	(1,227)	(1,379)
Net insurance premiums written		9,327	6,838
Change in unearned premiums, net of reinsurance	19	(1,504)	(3,203)
Net insurance premiums earned		7,823	3,635
Insurance claims paid, net of reinsurance	20	(292)	(152)
Change in outstanding claims provisions, net of reinsurance	20	622	(1,572)
Net insurance claims incurred		330	(1,724)
Acquisition income	21	279	279
Personnel expenses	22	(1,167)	(563)
Other operating and administrative expenses	22	(982)	(452)
Operating income less expenses		(1,870)	(736)
Interest income	7	1,552	769
Impairment charge on interest bearing assets	7	(731)	-
Other income		41	17
Non-operating income less expenses		862	786
Profit before income tax expense		7,145	1,961
Income tax expense	10	(1,417)	(24)
Profit for the year		5,728	1,937
Total comprehensive income for the year		5,728	1,937

The accompanying notes on pages 5 to 39 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY**For the year ended 31 December 2012***(Thousands of Azerbaijani Manats)*

	<i>Notes</i>	<i>Share capital</i>	<i>Retained earnings/ (Accumulated losses)</i>	<i>Total</i>
31 December 2010		7,000	(27)	6,973
Total comprehensive income for the year		–	1,937	1,937
Dividends declared	17	–	(250)	(250)
31 December 2011		7,000	1,660	8,660
Issuance of share capital	17	6,050	–	6,050
Transfer to share capital	17	2,000	(2,000)	–
Total comprehensive income for the year		–	5,728	5,728
31 December 2012		15,050	5,388	20,438

The accompanying notes on pages 5 to 39 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS**For the year ended 31 December 2012***(Thousands of Azerbaijani Manats)*

	<i>Notes</i>	2012	2011
Cash flows from operating activities			
Insurance premium received		10,590	7,907
Reinsurance premium paid		(461)	(512)
Insurance benefits and claims paid		(361)	(181)
Reinsurance claims received		–	29
Acquisition costs paid		(39)	(507)
Personnel expenses paid		(1,018)	(298)
Other income received		44	14
Other expenses paid		(1,005)	(428)
Net cash from operating activities before income tax		7,750	6,024
Income tax paid		(85)	–
Net cash from operating activities		7,665	6,024
Cash flows from investing activities			
Acquisition of premises and equipment	11	(199)	(138)
Acquisition of intangible assets	12	(20)	(30)
Placement of time deposits		(19,091)	(12,400)
Amounts repaid by credit institutions		6,603	–
Interest received		1,287	378
Net cash used in investing activities		(11,420)	(12,190)
Cash flows from financing activities			
Proceeds from issuance of share capital	17	6,050	–
Payment of dividends		(225)	–
Net cash from financing activities		5,825	–
Effect of exchange rates changes on cash and cash equivalents		(1)	(2)
Net increase/(decrease) in cash and cash equivalents		2,069	(6,168)
Cash and cash equivalents, beginning	6	721	6,889
Cash and cash equivalents, ending	6	2,790	721

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