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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 2014 and the statement of profit or loss and other 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 2014, 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.

02 June 2015

STATEMENT OF FINANCIAL POSITION**As of 31 December 2014***(Thousands of Azerbaijani manats)*

	Notes	2014	2013
Assets			
Cash and cash equivalents	5	23,513	11,441
Restricted cash	6	6,223	1,425
Amounts due from credit institutions	7	44,432	34,173
Investment securities	8	8,579	–
Insurance receivables	9	2,417	1,728
Deferred acquisition costs	10	2,258	440
Reinsurance assets	15	349	228
Property and equipment	11	571	395
Intangible assets	12	250	29
Current income tax assets		642	–
Deferred income tax assets	13	–	188
Other assets	14	2,741	161
Total assets		91,975	50,208
Liabilities			
Insurance contracts liabilities	15	43,790	14,894
Reinsurance and other payables	16	904	377
Current income tax liabilities		–	1,200
Deferred income tax liabilities	13	91	–
Other liabilities	17	2,283	1,170
Total liabilities		47,068	17,641
Equity			
Share capital	18	40,250	25,200
Retained earnings		4,640	7,367
Net unrealized gains on investment securities available-for-sale		17	–
Total equity		44,907	32,567
Total equity and liabilities		91,975	50,208

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

Chairman of the Management Board

Mr. Mursal Rustamov

Member of the Management Board

Mrs. Dilara Babayeva

Head of Finance Department

Mr. Afgan Afganli

02 June 2015

The accompanying notes on pages 5-40 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**For the year ended 31 December 2014***(Thousands of Azerbaijani manats)*

	<i>Notes</i>	2014	2013
Gross premiums written	20	41,354	18,688
Premiums ceded to reinsurers	20	(803)	(658)
Net insurance premiums written		40,551	18,030
Change in unearned premiums, net of reinsurance		(9,136)	(2,409)
Change in mathematical reserves, net of reinsurance		(17,699)	(5,495)
Insurance claims paid, net of reinsurance	21	(2,593)	(789)
Change in outstanding claims provisions, net of reinsurance	21	(1,940)	(1,105)
Acquisition expenses, net	22	(969)	(147)
Net operating income from insurance activities		8,214	8,085
Personnel expenses	23	(3,996)	(2,658)
Other operating and administrative expenses	24	(2,715)	(1,432)
Investment income	25	5,308	2,883
Impairment losses	7, 9	(124)	(603)
Other (expense)/income		(2)	9
Net operating expenses from non-insurance activities		(1,529)	(1,801)
Profit before income tax expense		6,685	6,284
Income tax expense	13	(1,359)	(1,305)
Profit for the year		5,326	4,979
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Unrealized gains on investment securities available-for-sale		21	–
Income tax effect	13	(4)	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		17	–
Total comprehensive income for the year		5,343	4,979

STATEMENT OF CHANGES IN EQUITY**For the year ended 31 December 2014***(Thousands of Azerbaijani manats)*

	Share capital	Retained earnings	Net unrealized gains on investment securities available-for- sale	Total equity
31 December 2012	15,050	5,388	–	20,438
Cash contribution for share capital increase (Note 18)	10,150	–	–	10,150
Dividends (Note 18)	–	(3,000)	–	(3,000)
Total comprehensive income for the year	–	4,979	–	4,979
31 December 2013	25,200	7,367	–	32,567
Cash contribution for share capital increase (Note 18)	15,050	–	–	15,050
Dividends (Note 18)	–	(8,053)	–	(8,053)
Total comprehensive income for the year	–	5,326	17	5,343
31 December 2014	40,250	4,640	17	44,907

STATEMENT OF CASH FLOWS**For the year ended 31 December 2014***(Thousands of Azerbaijani manats)*

	Notes	2014	2013
Cash flows from operating activities			
Insurance premiums received		41,080	17,325
Reinsurance premiums paid		(538)	(734)
Insurance claims paid		(2,867)	(1,047)
Reinsurance claims received		69	31
Acquisition expenses paid		(2,349)	(371)
Personnel expenses paid		(3,457)	(2,172)
Other income received		–	53
Other operating and administrative expenses paid		(2,627)	(1,325)
Net cash from operating activities before income tax		29,311	11,760
Income tax paid		(2,568)	(1,380)
Net cash from operating activities		26,743	10,380
Cash flows from investing activities			
Purchase of land		(2,200)	–
Purchase of property and equipment	11	(376)	(210)
Purchase of intangible assets	12	(242)	(18)
Amounts placed at credit institutions		(40,237)	(31,570)
Amounts repaid by credit institutions		30,786	21,501
Purchase of investment securities		(8,537)	–
Interest income received		3,915	2,402
Proceeds from sale of property and equipment		29	–
Net cash used in investing activities		(16,862)	(7,895)
Cash flows from financing activities			
Proceeds from cash contribution for share capital increase	18	15,050	10,150
Payment of dividends	18	(8,053)	(3,000)
Net cash from financing activities		6,997	7,150
Effect of exchange rates changes on cash and cash equivalents		(8)	–
Reclassification from cash and cash equivalents to restricted cash		(4,798)	(1,425)
Net increase/(decrease) in cash and cash equivalents		12,072	8,210
Cash and cash equivalents, beginning	5	11,441	3,231
Cash and cash equivalents, ending	5	23,513	11,441

Non-cash transactions performed by the Company comprise:

	Notes	2014	2013
Withholding tax on interest income		426	265
Reinsurer's share in insurance claims paid		206	227