

**OJSC AZERBAIJAN INDUSTRY INSURANCE
COMPANY**

**International Financial Reporting Standards
Financial Statements and Independent
Auditor's Report**

31 December 2012



Independent Auditor's Report

To the Shareholders and Board of Directors of OJSC Azerbaijan Industry Insurance Company:

We have audited the accompanying financial statements of Azerbaijan Industry Insurance Open Joint-Stock Company ("the Company") which comprise statement of financial position as of 31 December 2012 and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes comprising 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.

Auditor's 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 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 auditor's 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 accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, Republic of Azerbaijan
19 October 2013

OJSC AZERBAIJAN INDUSTRY INSURANCE
Statement of Financial Position

	Note	31 December 2012	31 December 2011	1 January 2011
<i>In thousands of Azerbaijani Manats</i>				
Assets				
Cash and cash equivalents	7	383	105	2,349
Mandatory reserve with Compulsory Insurance Bureau		400	-	-
Term deposits with banks	8	7,267	8,060	3,930
Investment securities available for sale	9	2,520	480	442
Insurance receivables	10	1,437	591	625
Reinsurers' share of reserve for unearned premiums	13	1,019	1,821	1,432
Reinsurers' share of insurance loss reserves	14	1,104	348	592
Deferred acquisition costs	22	9	7	14
Current income tax prepayment		87	314	314
Deferred income tax asset	19	12	-	-
Intangible assets	12	272	-	5
Premises and equipment	12	201	72	44
Other assets	11	407	319	306
Total assets		15,118	12,117	10,053
Liabilities				
Reserve for unearned premiums, gross	13	2,891	2,368	1,794
Insurance loss reserves, gross	14	1,908	619	751
Insurance payables	15	477	117	399
Deferred income tax liability	19	-	95	115
Deferred commission income	21	182	298	203
Other liabilities	16	123	10	17
Total liabilities		5,581	3,507	3,279
Equity				
Share capital	17	8,160	6,000	4,800
Retained earnings		1,259	2,572	1,974
Other reserves	18	118	38	-
Total equity		9,537	8,610	6,774
Total liabilities and shareholders' equity		15,118	12,117	10,053

Approved for issue and signed on behalf of the Board of Directors on 19 October 2013.


Rashad B. Ahmadov
Chief Executive Director


Tapdiq S. Hasanov
Director of Financial Department



OJSC AZERBAIJAN INDUSTRY INSURANCE
Statement of Comprehensive Income

<i>In thousands of Azerbaijani Manats</i>	Note	2012	2011
Insurance activity			
Gross premiums written	20	7,643	6,317
Premiums ceded	20	(3,251)	(3,564)
Net premiums written		4,392	2,753
Increase in reserve for unearned premiums, gross	13	(523)	(574)
(Decrease)/increase in reinsurers' share of reserve for unearned premiums	13	(802)	389
Change in reserve for unearned premiums, net		(1,325)	(185)
Net premiums earned		3,067	2,568
Claims paid, gross	20	(1,737)	(1,815)
Claims recovered from reinsurers	20	303	951
Claims paid, net of reinsurers' share		(1,434)	(864)
(Increase)/decrease in insurance loss reserves, gross	14	(1,289)	132
Increase/(decrease) in reinsurers' share of insurance loss reserves	14	756	(244)
Change in loss reserve, net		(533)	(112)
Net claims incurred		(1,967)	(976)
Commission income from reinsurance companies and brokers	21	607	562
Provision for impairment on insurance receivables	10	(84)	(12)
Acquisition costs	22	(86)	(45)
Interest income on term deposits with bank		720	616
Operating expenses	23	(1,364)	(813)
Foreign exchange translation (losses less gains)/gains less losses		(3)	2
Other income/(expense)		105	(154)
Profit before taxation		995	1,748
Income tax (expense)/credit	19	(148)	20
Profit for the year		847	1,768
Other comprehensive income:			
Gains less losses arising from revaluation of available-for-sale investments during the year	18	80	38
Other comprehensive income for the year		80	38
Total comprehensive income for the year		927	1,806

OJSC AZERBAIJAN INDUSTRY INSURANCE
Statement of Changes in Equity

	Note	Share capital	Retained earnings	Revaluation reserve for AFS securities	Total
<i>In thousands of Azerbaijani Manats</i>					
Balance at 1 January 2011		4,800	1,974	-	6,774
Total comprehensive income for the year		-	1,768	38	1,806
Capitalised retained earnings		1,200	(1,200)	-	-
Capital contributions from shareholders other than through issuance of shares	17	-	30	-	30
Balance at 31 December 2011		6,000	2,572	38	8,610
Total comprehensive income for the year		-	847	80	927
Capitalised retained earnings	17	2,160	(2,160)	-	-
Balance at 31 December 2012		8,160	1,259	118	9,537

OJSC AZERBAIJAN INDUSTRY INSURANCE
Statement of Cash Flows

<i>In thousands of Azerbaijani Manats</i>	Note	2012	2011
Cash flows from operating activities			
Premiums received		6,711	6,338
Ceded premiums paid		(2,891)	(3,846)
Claims paid, gross		(1,737)	(1,815)
Commission income received		491	657
Acquisition costs paid		(88)	(38)
Operating expenses paid		(1,298)	(755)
Amount recovered from reinsurers		303	951
Other income/expense received/(paid)		105	(154)
Interest income received		768	421
Income tax expense paid		(28)	-
Cash flows from operating activities before changes in operating assets and liabilities		2,336	1,759
Changes in operating assets and liabilities			
Net decrease/(increase) in term deposits with banks		745	(3,935)
Net increase in mandatory reserve with Compulsory Insurance Bureau		(400)	-
Net increase in other assets		(88)	(43)
Net increase/(decrease) in other liabilities		113	(7)
Net cash provided from/(used in) operating activities		2,708	(2,226)
Cash flows from investment activities			
Acquisition of investment securities available for sale	9	(1,960)	-
Purchase of premises and equipment		(194)	(62)
Proceeds from disposal of premises and equipment		-	12
Acquisition of intangibles		(273)	-
Net cash from/(used in) investment activities		(2,427)	(50)
Cash flows from financing activities			
Capital contribution from shareholders other than through issuance		-	30
Net cash provided from financing activities		-	30
Effect of exchange rate changes on cash and cash equivalents		(1)	2
Net increase/(decrease) in cash and cash equivalents		278	(2,244)
Cash and cash equivalents at the beginning of year	7	105	2,349
Cash and cash equivalents at the end of year		383	105