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## Independent auditor's report

To the Shareholder and Management Board of PASHA Life Insurance OJSC

### Report on the audit of the financial statements

#### **Opinion**

We have audited the financial statements of PASHA Life Insurance OJSC (the "Company"), which comprise the statement of financial position as at 31 December 2016, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PASHA Life Insurance OJSC as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of management and Audit Committee for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

### ***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Ernst & Young Holdings (CIS) B.V.*

16 March 2017

Baku, Azerbaijan

*(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)***Statement of financial position****As at 31 December**

	Notes	2016	2015
<b>Assets</b>			
Cash and cash equivalents	6	69,789	46,516
Restricted cash	7	14,125	13,093
Amounts due from credit institutions	8	40,628	55,668
Investment securities	9	14,901	9,367
Insurance receivables	10	4,489	2,252
Deferred acquisition costs	11	5,400	1,342
Reinsurance assets	16	2,117	3,314
Deferred income tax assets	14	873	-
Property and equipment	12	780	625
Intangible assets	13	272	275
Other assets	15	2,071	3,488
<b>Total assets</b>		<b>155,445</b>	<b>135,940</b>
<b>Liabilities</b>			
Insurance contracts liabilities	16	93,724	78,821
Reinsurance payables	17	1,960	532
Current income tax liabilities	14	2,055	1,030
Deferred income tax liabilities		-	331
Other liabilities	18	3,571	3,275
<b>Total liabilities</b>		<b>101,310</b>	<b>83,989</b>
<b>Equity</b>			
Share capital	19	40,250	40,250
Retained earnings		14,051	12,094
Net unrealized losses on investment securities available-for-sale		(166)	(393)
<b>Total equity</b>		<b>54,135</b>	<b>51,951</b>
<b>Total equity and liabilities</b>		<b>155,445</b>	<b>135,940</b>

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

Chairman of the Management Board

Mr. Niyaz Ismayilov

Member of the Management Board

Mrs. Dilara Babayeva

Head of Finance Department

Mr. Afgan Afganli

16 March 2017

*The accompanying notes on pages 5-41 are an integral part of these financial statements.*

*(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)***Statement of profit or loss and other comprehensive income****For the year ended 31 December**

	<b>Notes</b>	<b>2016</b>	<b>2015</b>
Gross written premiums	21	77,497	53,735
Premiums ceded to reinsurers	21	(990)	(698)
<b>Net insurance written premiums</b>		<b>76,507</b>	<b>53,037</b>
Change in unearned premiums, net of reinsurance		(966)	1,893
Change in mathematical reserves, net of reinsurance		(13,148)	(32,992)
Insurance claims paid, net of reinsurance	22	(44,307)	(16,141)
Change in outstanding claims provisions, net of reinsurance	22	(1,986)	(967)
Acquisition expenses, net	23	(3,016)	(2,597)
<b>Net operating income from insurance activities</b>		<b>13,084</b>	<b>2,233</b>
Personnel expenses	24	(7,103)	(5,484)
Other operating and administrative expenses	25	(4,054)	(3,221)
Investment income	26	11,766	9,538
Impairment losses	8, 10, 15	(6,160)	(6,158)
Foreign exchange gain		8,817	18,009
Other (expense)/income		(13)	88
<b>Non-operating income from non-insurance activities</b>		<b>3,253</b>	<b>12,772</b>
<b>Profit before income tax expense</b>		<b>16,337</b>	<b>15,005</b>
Income tax expense	14	(3,639)	(3,107)
<b>Profit for the year</b>		<b>12,698</b>	<b>11,898</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Net unrealized gains/(losses) on investment securities available-for-sale		283	(512)
Tax effect of net (losses)/gains on investment securities available-for-sale	14	(56)	102
<b>Net other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods</b>		<b>227</b>	<b>(410)</b>
<b>Total comprehensive income for the year</b>		<b>12,925</b>	<b>11,488</b>

The accompanying notes on pages 5-41 are an integral part of these financial statements.

*(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)***Statement of changes in equity****For the year ended 31 December**

	<b>Share capital</b>	<b>Retained earnings</b>	<b>Net unrealized gains/(losses) on investment securities available- for-sale</b>	<b>Total equity</b>
<b>31 December 2014</b>	<b>40,250</b>	<b>4,640</b>	<b>17</b>	<b>44,907</b>
Dividends to shareholder (Note 19)	–	(4,444)	–	<b>(4,444)</b>
Total comprehensive income for the year	–	11,898	(410)	<b>11,488</b>
<b>31 December 2015</b>	<b>40,250</b>	<b>12,094</b>	<b>(393)</b>	<b>51,951</b>
Dividends to shareholder (Note 19)	–	(10,741)	–	<b>(10,741)</b>
Total comprehensive income for the year	–	12,698	227	<b>12,925</b>
<b>31 December 2016</b>	<b>40,250</b>	<b>14,051</b>	<b>(166)</b>	<b>54,135</b>

*The accompanying notes on pages 5-41 are an integral part of these financial statements.*

*(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)***Statement of cash flows****For the year ended 31 December**

	<b>Notes</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>			
Insurance premiums received		76,135	52,406
Reinsurance premiums paid		(632)	(296)
Insurance claims paid		(46,167)	(16,287)
Reinsurance claims received		–	96
Acquisition expenses paid		(5,765)	(2,292)
Personnel expenses paid		(6,593)	(4,607)
Other income received		–	181
Other operating and administrative expenses paid		(3,973)	(2,970)
<b>Net cash from operating activities before income tax</b>		<b>13,005</b>	<b>26,231</b>
Income tax paid		(3,068)	(453)
<b>Net cash from operating activities</b>		<b>9,937</b>	<b>25,778</b>
<b>Cash flows from investing activities</b>			
Amounts placed at credit institutions		(31,743)	(66,491)
Amounts repaid by credit institutions		47,968	70,158
Purchase of investment securities		(12,508)	(8,896)
Proceeds from sale and redemption of investment securities		8,423	7,514
Investment income received		6,989	5,892
Purchase of investment property		–	(418)
Proceeds from sale of land		200	200
Purchase of property and equipment		(384)	(415)
Purchase of intangible assets		(27)	(100)
Proceeds from sale of property and equipment		48	58
<b>Net cash from investing activities</b>		<b>18,966</b>	<b>7,502</b>
<b>Cash flows from financing activities</b>			
Payment of dividends	19	(10,843)	(4,362)
<b>Net cash used in financing activities</b>		<b>(10,843)</b>	<b>(4,362)</b>
Effect of exchange rates changes on cash and cash equivalents		6,244	981
Reclassification from cash and cash equivalents to amounts due from credit institutions		–	(26)
Reclassification from cash and cash equivalents to restricted cash		(1,031)	(6,870)
<b>Net increase in cash and cash equivalents</b>		<b>23,273</b>	<b>23,003</b>
<b>Cash and cash equivalents, beginning</b>	6	<b>46,516</b>	<b>23,513</b>
<b>Cash and cash equivalents, ending</b>	6	<b>69,789</b>	<b>46,516</b>

Non-cash transactions performed by the Company comprise:

	<b>Notes</b>	<b>2016</b>	<b>2015</b>
Withholding tax on interest income		800	638
Reinsurer's share in insurance claims paid		1,800	113

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