

Independent auditor's report

To the Shareholder and Management Board of PASHA Life Insurance OJSC

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 2017, 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 2017, 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.

5 March 2018

Baku, Azerbaijan

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

	Notes	2017	2016
Assets			
Cash and cash equivalents	6	54,548	69,789
Receivables from reverse repurchase agreements	7	11,015	–
Amounts due from credit institutions	8	52,906	54,753
Investment securities available-for-sale	9	74,880	14,901
Insurance receivables	10	3,894	4,489
Deferred acquisition costs	11	16,970	5,400
Reinsurance assets	16	895	2,117
Current income tax assets	14	683	–
Deferred income tax assets	14	633	873
Property and equipment	12	653	780
Intangible assets	13	322	272
Other assets	15	831	2,071
Total assets		218,230	155,445
Liabilities			
Insurance contracts liabilities	16	151,899	93,724
Reinsurance and other payables	17	5,015	1,960
Current income tax liabilities	14	–	2,055
Other liabilities	18	3,129	3,571
Total liabilities		160,043	101,310
Equity			
Share capital	19	40,250	40,250
Retained earnings		17,685	14,051
Net unrealized gains/(losses) on investment securities available-for-sale		252	(166)
Total equity		58,187	54,135
Total equity and liabilities		218,230	155,445

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, CFO

Ms. Dilara Babayeva

Head of Finance Department

Mr. Anar Jafarli

5 March 2018

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***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2017	2016
Gross written premiums	21	152,279	77,497
Premiums ceded to reinsurers	21	(1,163)	(990)
Net insurance written premiums		151,116	76,507
Change in unearned premiums, net of reinsurance	16	(11,193)	(966)
Change in mathematical reserves, net of reinsurance	16	(44,289)	(13,148)
Insurance claims paid, net of reinsurance	22	(57,204)	(44,307)
Change in outstanding claims provisions, net of reinsurance	22	(3,915)	(1,986)
Acquisition expenses, net	23	(15,722)	(3,016)
Net operating income from insurance activities		18,793	13,084
Personnel expenses	24	(4,600)	(7,103)
Other operating and administrative expenses	25	(6,542)	(4,054)
Investment income	26	14,152	11,766
Impairment gains/(losses)	8, 9, 10, 15	2,824	(6,160)
Foreign exchange (losses)/gains		(3,480)	8,817
Other income/(expense)		1,142	(13)
Net operating income from non-insurance activities		3,496	3,253
Profit before income tax expense		22,289	16,337
Income tax expense	14	(4,955)	(3,639)
Profit for the year		17,334	12,698
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Net unrealized (losses)/gains on investment securities available-for-sale		(3,989)	283
Impairment of investment securities available-for-sale reclassified to profit or loss	9	4,511	-
Tax effect of net gain on investment securities available-for-sale	14	(104)	(56)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		418	227
Total comprehensive income for the year		17,752	12,925

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

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

	Share capital	Retained earnings	Net unrealized gains/(losses) on investment securities available-for-sale	Total equity
31 December 2015	40,250	12,094	(393)	51,951
Dividends to shareholder (Note 19)	-	(10,741)	-	(10,741)
Total comprehensive income for the year	-	12,698	227	12,925
31 December 2016	40,250	14,051	(166)	54,135
Dividends to shareholder (Note 19)	-	(13,700)	-	(13,700)
Total comprehensive income for the year	-	17,334	418	17,752
31 December 2017	40,250	17,685	252	58,187

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

	Notes	2017	2016
Cash flows from operating activities			
Insurance premiums received		153,584	76,135
Reinsurance premiums paid		(606)	(632)
Insurance claims paid		(58,005)	(46,167)
Reinsurance claims received		2,152	-
Acquisition expenses paid		(24,853)	(5,765)
Personnel expenses paid		(5,805)	(6,593)
Other operating and administrative expenses paid		(6,078)	(3,973)
Net cash from operating activities before income tax		60,389	13,005
Income tax paid		(5,787)	(3,068)
Net cash from operating activities		54,602	9,937
Cash flows from investing activities			
Amounts placed at credit institutions		(28,732)	(32,774)
Amounts repaid by credit institutions		22,278	47,968
Purchase of investment securities available-for-sale		(72,409)	(12,508)
Proceeds from sale and redemption of investment securities		9,980	8,423
Placement of cash on reverse repurchase agreements		(11,879)	-
Proceeds from redemption of reverse repurchase agreements		864	-
Investment income received		16,277	6,989
Proceeds from sale of land		3,200	200
Purchase of property and equipment		(276)	(384)
Purchase of intangible assets		(31)	(27)
Proceeds from guarantees		205	-
Proceeds from sale of property and equipment		21	48
Net cash (used in) / from investing activities		(60,502)	17,935
Cash flows from financing activities			
Payment of dividends	19	(13,700)	(10,843)
Net cash used in financing activities		(13,700)	(10,843)
Effect of exchange rates changes on cash and cash equivalents		(2,329)	6,244
Reclassification from amounts due from credit institutions to cash and cash equivalents		6,688	-
Net (decrease)/increase in cash and cash equivalents		(15,241)	23,273
Cash and cash equivalents, beginning	6	69,789	46,516
Cash and cash equivalents, ending	6	54,548	69,789

Non-cash transactions performed by the Company comprise:

	Notes	2017	2016
Withholding tax on interest income		1,770	800
Reinsurer's share in insurance claims paid		174	1,800

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