

## 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 2018, 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 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 IFRSs, 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 ISAs 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 ISAs, 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 Audit Committee 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.*

6 March 2019

Baku, Azerbaijan



**Statement of financial position****As at 31 December 2018***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	<b>Notes</b>	<b>2018</b>	<b>2017</b>
<b>Assets</b>			
Cash and cash equivalents	6	48,075	54,548
Receivables from reverse repurchase agreements	7	-	11,015
Amounts due from credit institutions	8	81,929	52,906
Investment securities	9	202,337	74,880
Insurance receivables	10	5,574	3,894
Deferred acquisition costs	11	17,297	16,970
Reinsurance assets	16	509	895
Current income tax assets		-	683
Deferred income tax assets	14	-	633
Property and equipment	12	689	653
Intangible assets	13	557	322
Other assets	15	875	831
<b>Total assets</b>		<b>357,842</b>	<b>218,230</b>
<b>Liabilities</b>			
Insurance contracts liabilities	16	271,152	151,899
Investment contracts liabilities	17	13,055	-
Borrowings	19	1,501	-
Reinsurance and other payables	18	3,832	5,015
Current income tax liabilities		800	-
Deferred income tax liabilities	14	145	-
Other liabilities	20	5,912	3,129
<b>Total liabilities</b>		<b>296,397</b>	<b>160,043</b>
<b>Equity</b>			
Share capital	21	40,250	40,250
Retained earnings		20,730	17,685
Net unrealized gains on investment securities		465	252
<b>Total equity</b>		<b>61,445</b>	<b>58,187</b>
<b>Total equity and liabilities</b>		<b>357,842</b>	<b>218,230</b>

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

Chairman of the Management Board, CEO

Mr. Niyaz Ismayilov

Member of the Management Board, CFO

Ms. Dilara Babayeva

Head of Finance Department

Mr. Anar Jafarli

6 March 2019

*The accompanying notes on pages 5-47 are an integral part of these financial statements.*

**Statement of profit or loss and other comprehensive income****For the year ended 31 December 2018***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	<b>Notes</b>	<b>2018</b>	<b>2017</b>
Gross written premiums	23	250,127	152,279
Premiums ceded to reinsurers	23	(1,143)	(1,163)
<b>Net insurance written premiums</b>		<b>248,984</b>	<b>151,116</b>
Change in unearned premiums, net of reinsurance	16	(982)	(11,193)
Change in mathematical reserves, net of reinsurance	16	(115,667)	(44,289)
Insurance claims paid, net of reinsurance	24	(70,785)	(57,204)
Change in outstanding claims provisions, net of reinsurance	24	(2,990)	(3,915)
Acquisition expenses, net	25	(35,278)	(15,722)
<b>Net operating income from insurance activities</b>		<b>23,282</b>	<b>18,793</b>
Personnel expenses	26	(8,842)	(4,600)
Other operating and administrative expenses	27	(5,513)	(6,542)
Investment income, net	28	19,230	14,152
Impairment gains, net	6, 8, 9, 10	(85)	2,824
Foreign exchange losses, net		(22)	(3,480)
Other income		73	1,142
<b>Net operating income from non-insurance activities</b>		<b>4,841</b>	<b>3,496</b>
<b>Profit before income tax expense</b>		<b>28,123</b>	<b>22,289</b>
Income tax expense	14	(5,734)	(4,955)
<b>Profit for the year</b>		<b>22,389</b>	<b>17,334</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net unrealized losses on investment securities		X	(3,989)
Net change in fair value of debt instruments at fair value through other comprehensive income		(307)	X
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	9	341	X
Impairment of investment securities reclassified to profit or loss	9	-	4,511
Income tax relating to components of other comprehensive income	14	(7)	(104)
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<b>27</b>	<b>418</b>
<b>Total comprehensive income for the year</b>		<b>22,416</b>	<b>17,752</b>

The accompanying notes on pages 5-47 are an integral part of these financial statements.

**Statement of changes in equity****For the year ended 31 December 2018***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	<b>Share capital</b>	<b>Retained earnings</b>	<b>Net unrealized gains/(losses) on investment securities</b>	<b>Total equity</b>
<b>31 December 2016</b>	<b>40,250</b>	<b>14,051</b>	<b>(166)</b>	<b>54,135</b>
Dividends to shareholder (Note 21)	-	(13,700)	-	<b>(13,700)</b>
Total comprehensive income for the year	-	17,334	418	<b>17,752</b>
<b>31 December 2017</b>	<b>40,250</b>	<b>17,685</b>	<b>252</b>	<b>58,187</b>
Impact of adopting IFRS 9 (Note 4)	-	(2,212)	186	<b>(2,026)</b>
<b>Restated opening balance under IFRS 9</b>	<b>40,250</b>	<b>15,473</b>	<b>438</b>	<b>56,161</b>
Dividends to shareholder (Note 21)	-	(17,132)	-	<b>(17,132)</b>
Total comprehensive income for the year	-	22,389	27	<b>22,416</b>
<b>31 December 2018</b>	<b>40,250</b>	<b>20,730</b>	<b>465</b>	<b>61,445</b>

**Statement of cash flows****For the year ended 31 December 2018***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	<b>Notes</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>			
Insurance premiums received		248,398	153,584
Reinsurance premiums paid		(923)	(606)
Insurance claims paid		(65,090)	(58,005)
Reinsurance claims received		8	2,152
Acquisition expenses paid		(36,397)	(24,853)
Personnel expenses paid		(7,530)	(5,805)
Other operating and administrative expenses paid		(4,858)	(6,078)
<b>Cash flows from operating activities before changes in operating liabilities</b>		<b>133,608</b>	<b>60,389</b>
<i>Net increase in operating liabilities</i>			
Investment contract liabilities		7,100	-
<b>Net cash flows from operating activities before income tax</b>		<b>140,708</b>	<b>60,389</b>
Income tax paid		(1,497)	(5,787)
<b>Net cash from operating activities</b>		<b>139,211</b>	<b>54,602</b>
<b>Cash flows from investing activities</b>			
Amounts placed at credit institutions		(57,650)	(22,044)
Amounts repaid by credit institutions		26,171	22,278
Purchase of investment securities		(196,876)	(72,409)
Proceeds from sale and redemption of investment securities		91,526	9,980
Placements of cash on reverse repurchase agreements		-	(11,879)
Proceeds from redemption of reverse repurchase agreements		11,015	864
Investment income received		14,387	16,277
Proceeds from sale of land		-	3,200
Purchase of property and equipment		(318)	(276)
Purchase of intangible assets		(368)	(31)
Proceeds from guarantees		-	205
Proceeds from sale of property and equipment		68	21
<b>Net cash used in investing activities</b>		<b>(112,045)</b>	<b>(60,502)</b>
<b>Cash flows from financing activities</b>			
Payment of dividends	21	(17,120)	(13,700)
Proceeds from repurchase agreements		1,501	-
Redemption of repurchase agreements		(18,000)	-
<b>Net cash used in financing activities</b>		<b>(33,619)</b>	<b>(13,700)</b>
Effect of exchange rates changes on cash and cash equivalents		(18)	(2,329)
Effect of ECL on cash and cash equivalents	6	(2)	-
<b>Net decrease in cash and cash equivalents</b>		<b>(6,473)</b>	<b>(15,241)</b>
Cash and cash equivalents, beginning		54,548	69,789
<b>Cash and cash equivalents, ending</b>	6	<b>48,075</b>	<b>54,548</b>

Non-cash transactions performed by the Company comprise:

	<b>2018</b>	<b>2017</b>
Withholding tax on interest income	1,477	1,770
Reinsurer's share in insurance claims paid	252	174
Insurance claims paid	5,955	-
Purchase of investment securities through repurchase agreements	(18,000)	-
Amounts borrowed through repurchase agreements	18,000	-

*The accompanying notes on pages 5-47 are an integral part of these financial statements.*