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Independent auditor's report

To the Shareholder and Board of Directors 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 2020, 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 the Company as at 31 December 2020, 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 (including International Independence Standards) (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.

2 March 2021

Baku, Azerbaijan

Statement of financial position**As at 31 December 2020***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2020	2019
Assets			
Cash and cash equivalents	5	31,335	17,380
Amounts due from credit institutions	6	104,151	140,222
Investment securities	7	240,744	225,464
Insurance receivables	8	10,261	7,619
Deferred acquisition costs	9	16,501	19,311
Reinsurance assets	15	1,576	826
Deferred income tax assets	13	1,917	1,379
Property and equipment	10	3,760	1,009
Right-of-use asset	12	3,709	76
Intangible assets	11	674	650
Other assets	14	1,154	1,532
Total assets		415,782	415,468
Liabilities			
Insurance contracts liabilities	15	272,857	317,549
Investment contract liabilities	16	16,094	15,545
Borrowings	18	40,229	–
Reinsurance and other payables	17	7,403	3,594
Current income tax liabilities	13	676	3,481
Lease liability	20	3,911	121
Other liabilities	19	13,653	7,875
Total liabilities		354,823	348,165
Equity			
Share capital	21	40,250	40,250
Retained earnings		19,665	26,268
Net unrealized gains on investment securities		1,044	785
Total equity		60,959	67,303
Total equity and liabilities		415,782	415,468

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

Director of Finance Department



Mr. Anar Jafari

2 March 2021

The accompanying notes on pages 5-44 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income**For the year ended 31 December 2020***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2020	2019
Gross written premiums	23	222,125	191,991
Premiums ceded to reinsurers	23	(956)	(1,149)
Net insurance written premiums		221,169	190,842
Change in unearned premiums, net of reinsurance	15	3,432	(6,237)
Change in mathematical reserves, net of reinsurance	15	60,069	(33,955)
Insurance claims paid, net of reinsurance	24	(205,574)	(86,067)
Change in outstanding claims provisions, net of reinsurance	24	(18,059)	(5,888)
Acquisition expenses, net	25	(31,327)	(33,711)
Net operating income from insurance activities		29,710	24,984
Personnel expenses	26	(12,594)	(11,183)
Other operating and administrative expenses	27	(14,539)	(5,323)
Investment income	28	25,349	24,985
Finance cost	29	(891)	(328)
Impairment losses, net	5, 6, 7, 8	(700)	(171)
Foreign exchange losses, net		(20)	(18)
Other income, net		44	150
Net operating (loss)/income from non-insurance activities		(3,351)	8,112
Profit before income tax expense		26,359	33,096
Income tax expense	13	(6,724)	(6,858)
Profit for the year		19,635	26,238
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of debt instruments at fair value through other comprehensive income		(92)	262
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	7	192	138
Income tax relating to components of other comprehensive income	13	(20)	(80)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		80	320
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of equity instruments at fair value through other comprehensive income	31	224	-
Income tax relating to components of other comprehensive income	13	(45)	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		179	-
Total comprehensive income for the year		19,894	26,558

The accompanying notes on pages 5-44 are an integral part of these financial statements.

Statement of changes in equity**For the year ended 31 December 2020***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Share capital	Retained earnings	Net unrealized gains on investment securities	Total equity
1 January 2019	40,250	20,730	465	61,445
Dividends to shareholder (Note 21)	–	(20,700)	–	(20,700)
Total comprehensive income for the year	–	26,238	320	26,558
31 December 2019	40,250	26,268	785	67,303
Dividends to shareholder (Note 21)	–	(26,238)	–	(26,238)
Total comprehensive income for the year	–	19,635	259	19,894
31 December 2020	40,250	19,665	1,044	60,959

The accompanying notes on pages 5-44 are an integral part of these financial statements.

Statement of cash flows**For the year ended 31 December 2020***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2020	2019
Cash flows from operating activities			
Insurance premiums received		220,856	190,467
Reinsurance premiums paid		(758)	(890)
Insurance claims paid		(204,022)	(80,077)
Acquisition expenses paid		(23,677)	(36,061)
Personnel expenses paid		(11,179)	(9,582)
Other income received		–	11
Other operating and administrative expenses paid		(12,728)	(4,862)
Cash (used in) / from operating activities before changes in operating liabilities		(31,508)	59,006
<i>Net decrease in operating liabilities</i>			
Investment contract liabilities		(1,746)	(3,876)
Net cash (used in) / from operating activities before income tax		(33,254)	55,130
Income tax paid		(7,850)	(3,604)
Net cash (used in) / from operating activities		(41,104)	51,526
Cash flows from investing activities			
Amounts placed at credit institutions		(44,091)	(70,399)
Amounts repaid by credit institutions		79,357	11,816
Purchase of investment securities		(70,338)	(112,558)
Proceeds from sale and redemption of investment securities		55,588	102,860
Placements of cash on reverse repurchase agreements		(96,496)	(122,402)
Proceeds from redemption of reverse repurchase agreements		96,496	121,396
Investment income received		22,929	21,180
Purchase of property and equipment		(808)	(1,117)
Purchase of intangible assets		(704)	(410)
Proceeds from sale of property and equipment		88	86
Net cash from / (used in) investing activities		42,021	(49,548)
Cash flows from financing activities			
Payment of dividends	21	(26,238)	(20,700)
Proceeds from repurchase agreements	18	53,000	–
Redemption of repurchase agreements	18	(13,000)	(11,534)
Payment of lease liability	20	(570)	(440)
Payment of leasehold improvement liability	19	(154)	–
Net cash from / (used in) financing activities		13,038	(32,674)
Effect of ECL on cash and cash equivalents	5	–	1
Net increase/(decrease) in cash and cash equivalents		13,955	(30,695)
Cash and cash equivalents, beginning of the year		17,380	48,075
Cash and cash equivalents, ending of the year	5	31,335	17,380

Non-cash transactions performed by the Company comprise:

	2020	2019
Withholding tax on interest income	2,282	2,177
Reinsurer's share in insurance claims paid	163	153
Insurance claims paid	2,040	6,096
Purchase of investment securities	–	(11,349)
Amounts borrowed through repurchase agreements	–	10,000
Proceeds from redemption of cash collateral on reverse repurchase agreements	–	1,006
Proceeds from sale and redemption of investment securities	–	343

The accompanying notes on pages 5-44 are an integral part of these financial statements.