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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 2019, 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 2019, 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 the 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 2020

Baku, Azerbaijan

Statement of financial position**As at 31 December 2019***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2019	2018
Assets			
Cash and cash equivalents	5	17,380	48,075
Amounts due from credit institutions	6	140,222	81,929
Investment securities	7	225,464	202,337
Insurance receivables	8	7,619	5,574
Deferred acquisition costs	9	19,311	17,297
Reinsurance assets	14	826	509
Deferred income tax assets	12	1,379	-
Property and equipment	10	1,009	689
Right-of-use asset	3	76	-
Intangible assets	11	650	557
Other assets	13	1,532	875
Total assets		415,468	357,842
Liabilities			
Insurance contracts liabilities	14	317,549	271,152
Investment contract liabilities	15	15,545	13,055
Borrowings	17	-	1,501
Lease liability	3	121	-
Reinsurance and other payables	16	3,594	3,832
Current income tax liabilities	12	3,481	800
Deferred income tax liabilities	12	-	145
Other liabilities	18	7,875	5,912
Total liabilities		348,165	296,397
Equity			
Share capital	19	40,250	40,250
Retained earnings		26,268	20,730
Net unrealized gains on investment securities		785	465
Total equity		67,303	61,445
Total equity and liabilities		415,468	357,842

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

First Deputy Chairman of the Management Board



Mr. Ibrahim Ibrahimov

Member of the Management Board, CFO

Ms. Dilara Babayeva

Head of Finance Department

Mr. Anar Jafarli

2 March 2020

The accompanying notes on pages 5-45 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income**For the year ended 31 December 2019***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2019	2018
Gross written premiums	21	191,991	250,127
Premiums ceded to reinsurers	21	(1,149)	(1,143)
Net insurance written premiums		190,842	248,984
Change in unearned premiums, net of reinsurance	14	(6,237)	(982)
Change in mathematical reserves, net of reinsurance	14	(33,955)	(115,667)
Insurance claims paid, net of reinsurance	22	(86,067)	(70,785)
Change in outstanding claims provisions, net of reinsurance	22	(5,888)	(2,990)
Acquisition expenses, net	23	(33,711)	(35,278)
Net operating income from insurance activities		24,984	23,282
Personnel expenses	24	(11,183)	(8,842)
Other operating and administrative expenses	25	(5,323)	(5,513)
Investment income	26	24,985	19,351
Finance cost	27	(328)	(121)
Impairment losses, net	5, 6, 7, 8	(171)	(85)
Foreign exchange losses, net		(18)	(22)
Other income, net		150	73
Net operating income from non-insurance activities		8,112	4,841
Profit before income tax expense		33,096	28,123
Income tax expense	12	(6,858)	(5,734)
Profit for the year		26,238	22,389
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		262	(307)
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	7	138	341
Income tax relating to components of other comprehensive income	12	(80)	(7)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		320	27
Total comprehensive income for the year		26,558	22,416

The accompanying notes on pages 5-45 are an integral part of these financial statements.

Statement of changes in equity**For the year ended 31 December 2019***(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 2018	40,250	15,473	438	56,161
Dividends to shareholder (Note 19)	–	(17,132)	–	(17,132)
Total comprehensive income for the year	–	22,389	27	22,416
31 December 2018	40,250	20,730	465	61,445
Dividends to shareholder (Note 19)	–	(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

The accompanying notes on pages 5-45 are an integral part of these financial statements.

Statement of cash flows**For the year ended 31 December 2019***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2019	2018
Cash flows from operating activities			
Insurance premiums received		190,467	248,398
Reinsurance premiums paid		(890)	(923)
Insurance claims paid		(80,077)	(65,090)
Reinsurance claims received		–	8
Acquisition expenses paid		(36,061)	(36,397)
Personnel expenses paid		(9,582)	(7,530)
Other income received		11	–
Other operating and administrative expenses paid		(4,862)	(4,858)
Cash flows from operating activities before changes in operating liabilities		59,006	133,608
<i>Net (decrease)/increase in operating liabilities</i>			
Investment contract liabilities		(3,876)	7,100
Net cash flows from operating activities before income tax		55,130	140,708
Income tax paid		(3,604)	(1,497)
Net cash from operating activities		51,526	139,211
Cash flows from investing activities			
Amounts placed at credit institutions		(70,399)	(57,650)
Amounts repaid by credit institutions		11,816	26,171
Purchase of investment securities		(112,558)	(196,876)
Proceeds from sale and redemption of investment securities		102,860	91,526
Placements of cash on reverse repurchase agreements		(122,402)	–
Proceeds from redemption of reverse repurchase agreements		121,396	11,015
Investment income received		21,180	14,387
Purchase of property and equipment		(1,117)	(318)
Purchase of intangible assets		(410)	(368)
Proceeds from sale of property and equipment		86	68
Net cash used in investing activities		(49,548)	(112,045)
Cash flows from financing activities			
Payment of dividends	19	(20,700)	(17,120)
Proceeds from repurchase agreements		–	1,501
Redemption of repurchase agreements	17, 27	(11,534)	(18,000)
Payment of lease liabilities	3	(440)	–
Net cash used in financing activities		(32,674)	(33,619)
Effect of exchange rate changes on cash and cash equivalents		–	(18)
Effect of ECL on cash and cash equivalents	5	1	(2)
Net decrease in cash and cash equivalents		(30,695)	(6,473)
Cash and cash equivalents, beginning		48,075	54,548
Cash and cash equivalents, ending	5	17,380	48,075

Non-cash transactions performed by the Company comprise:

	2019	2018
Withholding tax on interest income	2,177	1,477
Reinsurer's share in insurance claims paid	153	252
Insurance claims paid	6,096	5,955
Purchase of investment securities	(11,349)	(18,000)
Amounts borrowed through repurchase agreements	10,000	18,000
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 5-45 are an integral part of these financial statements.