

## 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 2021, 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 2021, 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 2022

Baku, Azerbaijan

**Statement of financial position****As at 31 December 2021***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

|   | Notes | 2021           | 2020           |
|---|-------|----------------|----------------|
| <b>Assets</b>                                 |       |                |                |
| Cash and cash equivalents                     | 5     | 36,216         | 31,335         |
| Amounts due from credit institutions          | 6     | 64,177         | 104,151        |
| Investment securities                         | 7     | 271,480        | 240,744        |
| Insurance receivables                         | 8     | 11,993         | 10,261         |
| Deferred acquisition costs                    | 9     | 17,086         | 16,501         |
| Reinsurance assets                            | 15    | 696            | 1,576          |
| Current income tax assets                     | 13    | 215            | -              |
| Deferred income tax assets                    | 13    | -              | 1,917          |
| Property and equipment                        | 10    | 3,327          | 3,760          |
| Right-of-use asset                            | 12    | 3,319          | 3,709          |
| Intangible assets                             | 11    | 806            | 674            |
| Other assets                                  | 14    | 1,483          | 1,154          |
| <b>Total assets</b>                           |       | <b>410,798</b> | <b>415,782</b> |
| <b>Liabilities</b>                            |       |                |                |
| Insurance contracts liabilities               | 15    | 289,891        | 272,857        |
| Investment contract liabilities               | 16    | 28,460         | 16,094         |
| Borrowings                                    | 18    | -              | 40,229         |
| Reinsurance and other payables                | 17    | 3,940          | 7,403          |
| Current income tax liabilities                | 13    | -              | 676            |
| Deferred income tax liabilities               | 13    | 1,126          | -              |
| Lease liability                               | 20    | 3,643          | 3,911          |
| Other liabilities                             | 19    | 12,271         | 13,653         |
| <b>Total liabilities</b>                      |       | <b>339,331</b> | <b>354,823</b> |
| <b>Equity</b>                                 |       |                |                |
| Share capital                                 | 21    | 40,250         | 40,250         |
| Retained earnings                             |       | 28,647         | 19,665         |
| Net unrealized gains on investment securities |       | 2,570          | 1,044          |
| <b>Total equity</b>                           |       | <b>71,467</b>  | <b>60,959</b>  |
| <b>Total equity and liabilities</b>           |       | <b>410,798</b> | <b>415,782</b> |

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

Chairman of the Management Board, CEO



P. Niyaz İsmayilov

Member of the Management Board, CFO

Ms. Dilara Babayeva

Director of Finance Department

Mr. Anar Jafarli

2 March 2022

*The accompanying notes on pages 5-43 are an integral part of these financial statements.*

**Statement of profit or loss and other comprehensive income****For the year ended 31 December 2021***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

|  | <i>Notes</i> | <b>2021</b>    | <b>2020</b>    |
|--|--------------|----------------|----------------|
| Gross written premiums   | 23           | 276,094        | 222,125        |
| Premiums ceded to reinsurers   | 23           | (1,479)        | (956)          |
| <b>Net insurance written premiums</b>  |              | <b>274,615</b> | <b>221,169</b> |
| Change in unearned premiums, net of reinsurance  | 15           | (1,590)        | 3,432          |
| Change in mathematical reserves, net of reinsurance  | 15           | (37,963)       | 60,069         |
| Insurance claims paid, net of reinsurance  | 24           | (188,907)      | (205,574)      |
| Change in outstanding claims provisions, net of reinsurance  | 24           | 21,639         | (18,059)       |
| Acquisition expenses, net  | 25           | (26,398)       | (31,327)       |
| <b>Net operating income from insurance activities</b>  |              | <b>41,396</b>  | <b>29,710</b>  |
| Personnel expenses   | 26           | (13,442)       | (12,594)       |
| Other operating and administrative expenses  | 27           | (12,024)       | (14,539)       |
| Investment income  | 28           | 23,903         | 25,349         |
| Finance cost   | 29           | (3,005)        | (891)          |
| Net gains on derecognition of financial assets measured at fair value through other comprehensive income                               |              | 212            | -              |
| Impairment reversal/(losses), net  | 5, 6, 7, 8   | 243            | (700)          |
| Foreign exchange losses, net   |              | (3)            | (20)           |
| Other income, net  |              | 253            | 44             |
| <b>Net operating loss from non-insurance activities</b>  |              | <b>(3,863)</b> | <b>(3,351)</b> |
| <b>Profit before income tax expense</b>  |              | <b>37,533</b>  | <b>26,359</b>  |
| Income tax expense   | 13           | (8,886)        | (6,724)        |
| <b>Profit for the year</b>   |              | <b>28,647</b>  | <b>19,635</b>  |
| <b>Other comprehensive income</b>  |              |                |                |
| <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  |              | 272            | (92)           |
| Reclassification of cumulative gain on disposal of debt instruments at fair value through other comprehensive income to profit or loss |              | (212)          | -              |
| Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income                   | 7            | (85)           | 192            |
| Income tax relating to components of other comprehensive income  | 13           | 5              | (20)           |
| <b>Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods</b>                                |              | <b>(20)</b>    | <b>80</b>      |
| <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           | 1,932          | 224            |
| Income tax relating to components of other comprehensive income  | 13           | (386)          | (45)           |
| <b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>                                   |              | <b>1,546</b>   | <b>179</b>     |
| <b>Total comprehensive income for the year</b>   |              | <b>30,173</b>  | <b>19,894</b>  |

The accompanying notes on pages 5-43 are an integral part of these financial statements.

**Statement of changes in equity****For the year ended 31 December 2021***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

|   | <b>Share<br/>capital</b> | <b>Retained<br/>earnings</b> | <b>Net unrealized<br/>gains on<br/>investment<br/>securities</b> | <b>Total<br/>equity</b> |
|---|--------------------------|------------------------------|--|-------------------------|
| <b>1 January 2020</b>                   | <b>40,250</b>            | <b>26,268</b>                | <b>785</b>   | <b>67,303</b>           |
| Dividends to shareholder (Note 21)      | -                        | (26,238)                     | -  | (26,238)                |
| Total comprehensive income for the year | -                        | 19,635                       | 259  | 19,894                  |
| <b>31 December 2020</b>                 | <b>40,250</b>            | <b>19,665</b>                | <b>1,044</b>   | <b>60,959</b>           |
| Dividends to shareholder (Note 21)      | -                        | (19,665)                     | -  | (19,665)                |
| Total comprehensive income for the year | -                        | 28,647                       | 1,526  | 30,173                  |
| <b>31 December 2021</b>                 | <b>40,250</b>            | <b>28,647</b>                | <b>2,570</b>   | <b>71,467</b>           |

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**Statement of cash flows****For the year ended 31 December 2021***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

|   | <b>Notes</b> | <b>2021</b>     | <b>2020</b>     |
|---|--------------|-----------------|-----------------|
| <b>Cash flows from operating activities</b>   |              |                 |                 |
| Insurance premiums received   |              | 275,099         | 220,856         |
| Reinsurance premiums paid   |              | (667)           | (758)           |
| Insurance claims paid   |              | (187,997)       | (204,022)       |
| Acquisition expenses paid   |              | (31,092)        | (23,677)        |
| Personnel expenses paid   |              | (14,333)        | (11,179)        |
| Other income received   |              | 217             | -               |
| Other operating and administrative expenses paid  |              | (11,800)        | (12,728)        |
| <b>Cash from / (used in) operating activities before changes in operating liabilities</b> |              | <b>29,427</b>   | <b>(31,508)</b> |
| <i>Net increase/decrease in operating liabilities</i>                                     |              |                 |                 |
| Investment contract liabilities   |              | 10,769          | (1,746)         |
| <b>Net cash from / (used in) operating activities before income tax</b>                   |              | <b>40,196</b>   | <b>(33,254)</b> |
| Income tax paid   |              | (4,810)         | (7,850)         |
| <b>Net cash from / (used in) operating activities</b>                                     |              | <b>35,386</b>   | <b>(41,104)</b> |
| <b>Cash flows from investing activities</b>   |              |                 |                 |
| Amounts placed at credit institutions   |              | (8,150)         | (44,091)        |
| Amounts repaid by credit institutions   |              | 48,257          | 79,357          |
| Purchase of investment securities   |              | (133,196)       | (70,338)        |
| Proceeds from sale and redemption of investment securities                                |              | 105,168         | 55,588          |
| Placements of cash on reverse repurchase agreements                                       |              | (156,695)       | (96,496)        |
| Proceeds from redemption of reverse repurchase agreements                                 |              | 156,695         | 96,496          |
| Investment income received  |              | 21,488          | 22,929          |
| Purchase of property and equipment  |              | (254)           | (808)           |
| Purchase of intangible assets   |              | (861)           | (704)           |
| Proceeds from sale of property and equipment  |              | 73              | 88              |
| <b>Net cash from investing activities</b>   |              | <b>32,525</b>   | <b>42,021</b>   |
| <b>Cash flows from financing activities</b>   |              |                 |                 |
| Payment of dividends  | 21           | (19,665)        | (26,238)        |
| Proceeds from repurchase agreements   | 18           | 128,693         | 53,000          |
| Redemption of repurchase agreements   |              | (170,898)       | (13,000)        |
| Payment of lease liability  | 20           | (761)           | (570)           |
| Payment of leasehold improvement liability  | 19           | (399)           | (154)           |
| <b>Net cash (used in) / from financing activities</b>                                     |              | <b>(63,030)</b> | <b>13,038</b>   |
| Effect of ECL on cash and cash equivalents  | 5            | -               | -               |
| <b>Net increase in cash and cash equivalents</b>  |              | <b>4,881</b>    | <b>13,955</b>   |
| Cash and cash equivalents, beginning of the year  |              | 31,335          | 17,380          |
| <b>Cash and cash equivalents, ending of the year</b>                                      | 5            | <b>36,216</b>   | <b>31,335</b>   |
| Non-cash transactions performed by the Company comprise:                                  |              |                 |                 |
|   |              | <b>2021</b>     | <b>2020</b>     |
| Withholding tax on investment income  |              | 2,305           | 2,282           |
| Reinsurer's share in insurance claims paid  |              | 794             | 163             |
| Insurance claims paid   |              | 1,331           | 2,040           |

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