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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 2022, 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 2022, 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.

28 February 2023

Baku, Azerbaijan

Statement of financial position**As at 31 December 2022***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2022	2021
Assets			
Cash and cash equivalents	5	49,934	36,216
Amounts due from credit institutions	6	85,948	64,177
Investment securities	7	385,844	271,480
Insurance receivables	8	18,564	11,993
Deferred acquisition costs	9	6,432	17,086
Reinsurance assets	15	931	696
Current income tax assets	13	–	215
Deferred income tax assets	13	2,101	–
Property and equipment	10	2,790	3,327
Right-of-use asset	12	2,929	3,319
Intangible assets	11	794	806
Other assets	14	1,896	1,483
Total assets		558,163	410,798
Liabilities			
Insurance contracts liabilities	15	380,610	289,891
Investment contract liabilities	16	53,922	28,460
Borrowings	18	18,931	–
Reinsurance and other payables	17	6,187	3,940
Current income tax liabilities	13	9,049	–
Deferred income tax liabilities	13	–	1,126
Lease liability	20	3,399	3,643
Other liabilities	19	14,734	12,271
Total liabilities		486,832	339,331
Equity			
Share capital	21	40,250	40,250
Retained earnings		30,757	28,647
Net unrealized gains on investment securities		324	2,570
Total equity		71,331	71,467
Total equity and liabilities		558,163	410,798

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 Jafarli

28 February 2023

The accompanying notes on pages 5-51 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income**For the year ended 31 December 2022***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2022	2021
Gross written premiums	23	357,185	276,094
Premiums ceded to reinsurers	23	(1,850)	(1,479)
Net insurance written premiums		355,335	274,615
Change in unearned premiums, net of reinsurance	15	8,652	(1,590)
Change in mathematical reserves, net of reinsurance	15	(85,773)	(37,963)
Insurance claims paid, net of reinsurance	24	(195,616)	(188,907)
Change in outstanding claims provisions, net of reinsurance	24	(13,363)	21,639
Acquisition expenses, net	25	(20,149)	(26,398)
Net operating income from insurance activities		49,086	41,396
Personnel expenses	26	(19,391)	(13,442)
Other operating and administrative expenses	27	(15,087)	(12,024)
Investment income	28	24,605	23,903
Finance cost	29	(1,533)	(3,005)
Net gains on derecognition of financial assets measured at fair value through other comprehensive income		-	212
Impairment reversal, net	5, 6, 7, 8	143	243
Foreign exchange losses, net		-	(3)
Other income, net		108	253
Net operating loss from non-insurance activities		(11,155)	(3,863)
Profit before income tax expense		37,931	37,533
Income tax expense	13	(9,568)	(8,886)
Profit for the year		28,363	28,647
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		(299)	272
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	(401)	(85)
Income tax relating to components of other comprehensive income	13	140	5
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(560)	(20)
<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	(2,108)	1,932
Income tax relating to components of other comprehensive income	13	422	(386)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		(1,686)	1,546
Total comprehensive income for the year		26,117	30,173

The accompanying notes on pages 5-51 are an integral part of these financial statements.

Statement of changes in equity**For the year ended 31 December 2022***(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 2021	40,250	19,665	1,044	60,959
Dividends to shareholder (Note 21)	-	(19,665)	-	(19,665)
Total comprehensive income for the year	-	28,647	1,526	30,173
31 December 2021	40,250	28,647	2,570	71,467
Dividends to shareholder (Note 21)	-	(26,253)	-	(26,253)
Total comprehensive income for the year	-	28,363	(2,246)	26,117
31 December 2022	40,250	30,757	324	71,331

The accompanying notes on pages 5-51 are an integral part of these financial statements.

Statement of cash flows**For the year ended 31 December 2022***(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	2022	2021
Cash flows from operating activities			
Insurance premiums received		353,796	275,099
Reinsurance premiums paid		(799)	(667)
Insurance claims paid		(192,367)	(187,997)
Acquisition expenses paid		(10,085)	(31,092)
Personnel expenses paid		(18,379)	(14,333)
Other income received		115	217
Other operating and administrative expenses paid		(13,512)	(11,800)
Cash from operating activities before changes in operating liabilities		118,769	29,427
<i>Net increase in operating liabilities</i>			
Investment contract liabilities		22,117	10,769
Net cash from operating activities before income tax		140,886	40,196
Income tax paid		(2,819)	(4,810)
Net cash from operating activities		138,067	35,386
Cash flows from investing activities			
Amounts placed at credit institutions		(64,317)	(8,150)
Amounts repaid by credit institutions		42,384	48,257
Purchase of investment securities		(215,737)	(133,196)
Proceeds from sale and redemption of investment securities		98,747	105,168
Placements of cash on reverse repurchase agreements		(6,180)	(156,695)
Proceeds from redemption of reverse repurchase agreements		6,180	156,695
Investment income received		24,301	21,488
Purchase of property and equipment		(341)	(254)
Purchase of intangible assets		(878)	(861)
Proceeds from sale of property and equipment		-	73
Net cash (used in) / from investing activities		(115,841)	32,525
Cash flows from financing activities			
Payment of dividends	21	(26,253)	(19,665)
Proceeds from repurchase agreements	18	172,346	128,693
Redemption of repurchase agreements		(153,530)	(170,898)
Payment of lease liability	20	(701)	(761)
Payment of leasehold improvement liability	19	(369)	(399)
Net cash used in financing activities		(8,507)	(63,030)
Effect of change in ECL on cash and cash equivalents	5	(1)	-
Net increase in cash and cash equivalents		13,718	4,881
Cash and cash equivalents, beginning of the year		36,216	31,335
Cash and cash equivalents, ending of the year	5	49,934	36,216

Non-cash transactions performed by the Company comprise:

	2022	2021
Withholding tax on investment income	150	2,305
Reinsurer's share in insurance claims paid	121	794
Insurance claims paid	3,370	1,331

The accompanying notes on pages 5-51 are an integral part of these financial statements.