

# **PASHA Insurance OJSC**

## **Financial statements**

*Year ended 31 December 2019  
together with independent auditor's report*

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## Independent auditor's report

To the Shareholder and Management Board of  
PASHA Insurance OJSC

### **Opinion**

We have audited the financial statements of PASHA 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 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.*

3 March 2020

Baku, Azerbaijan

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)

## STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	2019	2018
<b>Assets</b>			
Cash and cash equivalents	6	11,571	3,987
Investment securities	7	90,594	78,043
Amounts due from credit institutions	8	31,060	37,731
Insurance receivables	9	18,107	11,706
Deferred expenses	15	2,498	1,950
Reinsurance assets	12	23,505	24,135
Deferred income tax assets	16	267	–
Property, equipment and intangible assets	10	2,565	2,813
Right-of-use assets	4	4,389	–
Other assets	11	17,105	11,241
<b>Total assets</b>		<b>201,661</b>	<b>171,606</b>
<b>Liabilities</b>			
Insurance contract liabilities	12	88,105	72,697
Insurance payables	13	11,586	7,255
Borrowings	14	–	5,554
Deferred revenue	15	2,178	1,828
Current income tax liabilities	16	3,689	2,290
Deferred income tax liabilities	16	–	250
Lease liabilities	4	4,593	–
Other liabilities	11	8,875	6,747
<b>Total liabilities</b>		<b>119,026</b>	<b>96,621</b>
<b>Equity</b>			
Share capital	17	50,000	50,000
Retained earnings		30,673	23,561
Net unrealized gains on investment securities		1,962	1,121
<b>Total equity</b>		<b>82,635</b>	<b>74,985</b>
<b>Total liabilities and equity</b>		<b>201,661</b>	<b>171,606</b>

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

  
 Ulviyya Jabbarova  
 Chief Executive Officer,  
 Chairman of the Management Board



  
 Ulviyya Abbasova  
 Chief Financial Officer,  
 Member of the Management Board

3 March 2020

The accompanying notes on pages 5 to 57 are an integral part of these financial statements.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December

	Notes	2019	2018
Gross written premiums		147,952	127,095
Premiums ceded to reinsurers		(33,945)	(36,056)
<b>Net written premiums</b>		<b>114,007</b>	<b>91,039</b>
Change in provision for unearned premiums, net of reinsurance		(8,721)	(4,036)
<b>Premiums earned, net of reinsurance</b>		<b>105,286</b>	<b>87,003</b>
Claims incurred, net of reinsurance		(57,508)	(53,313)
Fees and commission income, net		3	167
<b>Insurance activity results</b>	19	<b>47,781</b>	<b>33,857</b>
Personnel expenses	20	(12,335)	(9,048)
General and administrative expenses	21	(7,643)	(7,405)
Marketing and advertisement expenses		(847)	(713)
Depreciation and amortization expenses	4, 10	(1,497)	(745)
<b>Operating expenses</b>		<b>(22,322)</b>	<b>(17,911)</b>
Investment income	22	10,775	12,145
Interest expense		(641)	(636)
Impairment gain / (loss)	7, 8, 9	120	(368)
Foreign exchanges loss, net		(34)	(141)
Other income, net		440	170
<b>Profit before income tax</b>		<b>36,119</b>	<b>27,116</b>
Income tax expense	16	(7,535)	(5,644)
<b>Profit for the year</b>		<b>28,584</b>	<b>21,472</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		684	2,040
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		(11)	(113)
Tax effect of gains on investment securities	16	(135)	(385)
<b>Net other comprehensive income to be classified to profit or loss in subsequent periods</b>		<b>538</b>	<b>1,542</b>
<b>Total comprehensive income for the year</b>		<b>29,122</b>	<b>23,014</b>

The accompanying notes on pages 5 to 57 are an integral part of these financial statements.

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## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Notes	Share capital	Retained earnings	Net unrealized gains/ (losses) on investment securities	Total equity
<b>1 January 2018</b>		<b>50,000</b>	<b>15,661</b>	<b>(118)</b>	<b>65,543</b>
Dividends to shareholder	17	–	(13,572)	–	(13,572)
Total comprehensive income for the year		–	21,472	1,542	<b>23,014</b>
<b>31 December 2018</b>		<b>50,000</b>	<b>23,561</b>	<b>1,424</b>	<b>74,985</b>
Dividends to shareholder	17	–	(21,472)	–	(21,472)
Total comprehensive income for the year		–	28,584	538	<b>29,122</b>
<b>31 December 2019</b>		<b>50,000</b>	<b>30,673</b>	<b>1,962</b>	<b>82,635</b>

The accompanying notes on pages 5 to 57 are an integral part of these financial statements.

(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)

## STATEMENT OF CASH FLOWS

For the year ended 31 December

	Notes	2019	2018
<b>Cash flows from operating activities</b>			
Insurance premiums received		139,785	115,560
Reinsurance premiums paid		(27,447)	(26,139)
Claims paid		(57,826)	(53,530)
Claims received, reinsurers' share of claims paid		1,016	2,037
Fees and commissions paid		(1,077)	(1,125)
Fees and commissions received		51	–
Personnel expenses paid		(10,671)	(7,893)
General and administrative expenses paid		(7,077)	(7,069)
Marketing and advertisement expenses paid		(773)	(1,078)
Subrogation income received, net		1,137	456
<b>Net cash flows from operating activities before income tax</b>		<b>37,118</b>	<b>21,219</b>
Income tax paid		(5,445)	(1,689)
<b>Net cash from operating activities</b>		<b>31,673</b>	<b>19,530</b>
<b>Cash flows from investing activities</b>			
Interest income received		8,281	7,262
Purchase of investment securities		(41,349)	(39,065)
Proceeds from sale and redemption of investment securities		45,737	53,008
Amounts placed at credit institutions		(24,755)	(24,471)
Amounts repaid by credit institutions		27,644	28,426
Amounts borrowed from credit institutions		3,400	–
Purchase of property, equipment and intangible assets	10, 11	(731)	(773)
Proceeds from sale of property, equipment and intangible assets		121	146
<b>Net cash from investing activities</b>		<b>18,348</b>	<b>24,533</b>
<b>Cash flows from financing activities</b>			
Dividends paid	17	(21,472)	(13,572)
Sale and repurchase operations	14	(19,886)	(33,163)
Lease payment	4	(1,028)	–
<b>Net cash used in financing activities</b>		<b>(42,386)</b>	<b>(46,735)</b>
Effect of exchange rates changes on cash and cash equivalents		(51)	(27)
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>7,584</b>	<b>(2,699)</b>
Cash and cash equivalents, beginning	6	3,987	6,686
<b>Cash and cash equivalents, ending</b>	6	<b>11,571</b>	<b>3,987</b>

Non-cash transactions performed by the Company comprise the following:

	Notes	2019	2018
<b>Cash flows from operating activities</b>			
Gross written premiums and premiums ceded to reinsurers on fronting contracts		4,619	9,830
<b>Cash flows from investing activities</b>			
Purchase of investment securities through sale and repurchase operations		(14,332)	(27,066)
<b>Cash flows from financing activities</b>			
Amounts borrowed through sale and repurchase operations		14,332	27,066
Withholding tax on interest income		930	1,132

The accompanying notes on pages 5 to 57 are an integral part of these financial statements.