

PASHA Insurance OJSC

Financial statements

*Year ended 31 December 2017
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 2017, 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 PASHA Insurance OJSC as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 (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.

5 March 2018

Baku, Azerbaijan

*(Amounts presented are in thousands of Azerbaijani manats, unless otherwise indicated)***STATEMENT OF FINANCIAL POSITION****As at 31 December**

	Notes	2017	2016
Assets			
Cash and cash equivalents	7	6,686	9,888
Investment securities	8	59,191	29,090
Amounts due from credit institutions	9	42,158	53,681
Insurance receivables	10	9,875	11,163
Deferred expenses	16	1,477	1,221
Reinsurance assets	13	20,249	17,073
Current income tax assets	17	700	554
Deferred income tax assets	17	522	592
Property, equipment and intangible assets	11	2,835	1,853
Other assets	12	6,936	3,943
Total assets		150,629	129,058
Liabilities			
Insurance contract liabilities	13	59,193	48,905
Insurance payables	14	8,458	6,351
Borrowings	15	11,015	-
Deferred revenue	16	1,397	686
Other liabilities	12	4,860	3,235
Total liabilities		84,923	59,177
Equity			
Share capital	18	50,000	50,000
Retained earnings		15,915	20,749
Net unrealized losses on investment securities available-for-sale		(209)	(868)
Total equity		65,706	69,881
Total liabilities and equity		150,629	129,058

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


Ulviyya Jabbarova
Chief Executive Officer,
Chairman of the Management Board



Murad Suleymanov
Chief Financial Officer,
Member of the Management Board

5 March 2018

(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	2017	2016
Gross written premiums		106,620	97,101
Premiums ceded to reinsurers		(26,016)	(18,150)
Net written premiums		<u>80,604</u>	<u>78,951</u>
Change in provision for unearned premiums, net of reinsurance		149	(8,237)
Premiums earned, net of reinsurance		<u>80,753</u>	<u>70,714</u>
Claims incurred, net of reinsurance	13	(50,587)	(47,702)
Fees and commission income, net	21	239	471
Insurance activity results	20	<u>30,405</u>	<u>23,483</u>
Personnel expenses	22	(7,172)	(7,130)
General and administrative expenses	23	(5,253)	(3,856)
Marketing and advertisement expenses	24	(2,545)	(639)
Depreciation and amortization expenses	11	(624)	(417)
Operating expenses		<u>(15,594)</u>	<u>(12,042)</u>
Investment income	25	10,225	8,422
Impairment losses	8, 10	(5,785)	(287)
Foreign exchanges (loss) / gain, net		(1,188)	3,487
Other income, net		109	149
Profit before income tax		<u>18,172</u>	<u>23,212</u>
Income tax expense	17	(4,023)	(4,229)
Profit for the year		<u>14,149</u>	<u>18,983</u>
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Unrealized (losses) / gains on investment securities available-for-sale		(3,093)	201
Impairment of investment securities available-for-sale reclassified to profit or loss	8	3,916	-
Tax effect of gains on investment securities available-for-sale	17	(164)	(40)
Net other comprehensive income to be classified to profit or loss in subsequent periods		<u>659</u>	<u>161</u>
Total comprehensive income for the year		<u>14,808</u>	<u>19,144</u>

The accompanying notes on pages 5 to 54 are an integral part of these financial statements.

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Notes	Share capital	Retained earnings	Net unrealized gains/ (losses) on investment securities available-for-sale	Total equity
31 December 2015		50,000	19,122	(1,029)	68,093
Dividends to shareholder	18	–	(17,356)	–	(17,356)
Total comprehensive income for the year		–	18,983	161	19,144
31 December 2016		50,000	20,749	(868)	69,881
Dividends to shareholder	18	–	(18,983)	–	(18,983)
Total comprehensive income for the year		–	14,149	659	14,808
31 December 2017		50,000	15,915	(209)	65,706

The accompanying notes on pages 5 to 54 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	2017	2016
Cash flows from operating activities			
Insurance premiums received		105,396	91,528
Reinsurance premiums paid		(20,493)	(12,869)
Claims paid		(48,275)	(47,391)
Claims received, reinsurers' share of claims paid		1,741	649
Fees and commissions paid		(684)	(458)
Fees and commissions received		203	256
Personnel expenses paid		(7,410)	(6,514)
General and administrative expenses paid		(4,905)	(3,974)
Marketing and advertisement expenses paid		(2,641)	(858)
Subrogation income received		361	307
Deposits placed at Compulsory Insurance Bureau		–	(200)
Net cash flows from operating activities before income tax		23,293	20,476
Income tax paid		(3,760)	(6,018)
Net cash from operating activities		19,533	14,458
Cash flows from investing activities			
Interest income received		6,484	7,957
Purchase of investment securities		(61,321)	(21,812)
Proceeds from sale and redemption of investment securities		30,710	12,228
Amounts placed at credit institutions		(18,501)	(50,570)
Amounts repaid by credit institutions		29,565	59,832
Purchase of property, equipment and intangible assets		(1,352)	(907)
Proceeds from sale of property, equipment and intangible assets	11	29	96
Net cash (used in) / from investing activities		(14,386)	6,824
Cash flows from financing activities			
Dividends paid	18	(18,983)	(17,356)
Sale and repurchase operations		11,010	(2,080)
Net cash (used in) financing activities		(7,973)	(19,436)
Effect of exchange rates changes on cash and cash equivalents		(376)	469
Net (decrease) / increase in cash and cash equivalents		(3,202)	2,315
Cash and cash equivalents, beginning	7	9,888	7,573
Cash and cash equivalents, ending	7	6,686	9,888

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

	Notes	2017	2016
Cash flows from operating activities			
Gross written premiums and premiums ceded to reinsurers on fronting contracts		2,225	1,801
Cash flows from investing activities			
Purchase of investment securities through sale and repurchase operations		(4,700)	(2,065)
Cash flows from financing activities			
Amounts borrowed through sale and repurchase operations		4,700	2,065
Withholding tax on interest income		816	817

The accompanying notes on pages 5 to 54 are an integral part of these financial statements.